ING GROEP NV
Form 20-F
March 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

ING GROEP N.V.

(Exact name of Registrant as specified in its charter)

ING GROUP

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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1102 MG Amsterdam

P.O. Box 1800, 1000 BV Amsterdam

The Netherlands

(Address of principal executive offices)

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1102 MG Amsterdam

The Netherlands

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares, nominal value EUR 0.01 per Ordinary Share*	New York Stock Exchange
6.125% ING Perpetual Debt Securities	New York Stock Exchange
6.375% ING Perpetual Debt Securities	New York Stock Exchange
3.150% Fixed Rate Senior Notes due 2022	New York Stock Exchange
3.950% Fixed Rate Senior Notes due 2027	New York Stock Exchange
Floating Rate Senior Notes due 2022	New York Stock Exchange
Floating Rate Senior Notes due 2023	New York Stock Exchange
4.10% Fixed Rate Senior Notes due 2023	New York Stock Exchange
4.55% Fixed Rate Senior Notes due 2028	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, nominal value EUR 0.01 per Ordinary Share 3.891.728.800

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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PRESENTATION OF INFORMATION

In this Annual Report, and unless otherwise stated or the context otherwise dictates, references to "ING Groep N.V.", "ING Groep" and "ING Group" refer to ING Groep N.V. and references to "ING", the "Company", the "Group", "we" and "us" refer to ING Groep N.V. and its consolidated subsidiaries. ING Groep N.V.'s primary banking subsidiary is ING Bank N.V. (together with its consolidated subsidiaries, "ING Bank"). References to "Executive Board" and "Supervisory Board" refer to the Executive Board or Supervisory Board of ING Groep N.V., respectively.

ING presents its consolidated financial statements in euros, the currency of the European Economic and Monetary Union. Unless otherwise specified or the context otherwise requires, references to “$”, “US$” and “Dollars” are to the United States dollars and references to “EUR” are to euros.

Solely for the convenience of the reader, this Annual Report contains translations of certain euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the translated amounts actually represent such dollar or euro amounts, as the case may be, or could be converted into U.S. dollars or euros, as the case may be, at the rates indicated or at any other rate. Therefore, unless otherwise stated, the translations of euros into U.S. dollars have been made at the rate of EUR 1.00 = U.S. $ 1.1342, the noon buying rate in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on 22 February 2019.

ING prepares financial information in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS-IASB”) for purposes of reporting with the U.S. Securities and Exchange Commission (“SEC”), including financial information contained in this Annual Report on Form 20-F. ING Group’s accounting policies and its use of various options under IFRS-IASB are described under ‘Principles of valuation and determination of results’ in the consolidated financial statements. In this document the term “IFRS-IASB” is used to refer to IFRS-IASB as applied by ING Group.

The published 2018 Annual Accounts of ING Group, however, are prepared in accordance with IFRS-EU. IFRS-EU refers to International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”), including the decisions ING Group made with regard to the options available under IFRS as adopted by the EU (IFRS-EU).

IFRS-EU differs from IFRS-IASB, in respect of certain paragraphs in IAS 39 ‘Financial Instruments: Recognition and Measurement’ regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU “carve-out” version of IAS 39. Under the EU “IAS 39 carve-out”, hedge accounting may be applied, in respect of fair value macro hedges, to core deposits and hedge ineffectiveness is only recognised when the revised estimate of the amount of cash flows in scheduled time buckets falls below the original designated amount of that bucket, and is not recognised when the revised amount of cash flows in scheduled time buckets is more than the original designated amount. Under IFRS-IASB, hedge accounting for fair value macro hedges cannot be applied to core deposits and hedge ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket. IFRS-IASB financial information is prepared by reversing the hedge accounting impacts that are applied under the EU “carve-out”’ version of IAS 39. Financial information under IFRS-IASB accordingly does not take account of the possibility that, had ING Group applied IFRS-IASB as its primary accounting framework, it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS-IASB compliant hedge accounting. These decisions could have resulted in different shareholders’ equity and net result amounts compared to those indicated in this Annual Report on Form 20-F.

Other than for the purpose of SEC reporting, ING Group intends to continue to prepare its Annual Accounts under IFRS-EU. A reconciliation between IFRS-EU and IFRS-IASB for shareholders' equity and net result is included in Note 2.1.1 'Notes to the accounting policies' to the consolidated financial statements.

In addition to the consolidated financial statements, which are prepared in accordance with IFRS-IASB, this Annual Report on Form 20-F contains certain measures that are not defined by generally accepted accounting principles (GAAP) such as IFRS. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating segment performance and allocating resources. We believe that presentation of this information, along with comparable GAAP measures, is useful to investors because it allows investors to understand the primary method used by management to evaluate performance on a meaningful basis. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, including the consolidated financial statements. Non-GAAP financial measures as defined by us may not be comparable with similarly titled measures used by other companies.

Certain amounts set forth herein, such as percentages, may not sum due to rounding.

This Annual Report on Form 20-F contains inactive textual addresses to Internet websites operated by us and third parties. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this Annual Report on Form 20-F.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made in the sections hereof entitled “Information on the Company”, “Dividends”, “Operating and Financial Review and Prospects”, “Selected Statistical Information on Banking Operations” and “Quantitative and Qualitative Disclosure of Market Risk” are statements of future expectations and other forward-looking statements. These statements are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to a number of factors, including, without limitation,

- changes in general economic conditions, in particular economic conditions in ING’s core markets,
- changes in performance of financial markets, including developing markets,
- potential consequences of the United Kingdom leaving the European Union or a break-up of the euro,
- changes in the fiscal position and the future economic performance of the US including potential consequences of a downgrade of the sovereign credit rating of the US government,
- potential consequences of a European sovereign debt crisis,
- changes in the availability of, and costs associated with, sources of liquidity such as interbank funding,
- changes in conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness,
- changes affecting interest rate levels,
- inflation and deflation in our principal markets,
- changes affecting currency exchange rates,
- changes in investor and customer behavior,
- changes in general competitive factors,
- changes in or discontinuation of ‘benchmark’ indices,
- changes in laws and regulations and the interpretation and application thereof,
- changes in compliance obligations including, but not limited to, those posed by the implementation of DAC6,
- geopolitical risks, political instability and policies and actions of governmental and regulatory authorities,
- changes in standards and interpretations under International Financial Reporting Standards (IFRS) and the application thereof,

- conclusions with regard to purchase accounting assumptions and methodologies, and other changes in accounting assumptions and methodologies including changes in valuation of issued securities and credit market exposure,

- changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards,

- changes in credit ratings,

- the outcome of current and future legal and regulatory proceedings,

- operational risks, such as system disruptions or failures, breaches of security, cyber-attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business,

- risks and changes related to cybercrime including the effects of cyber-attacks and changes in legislation and regulation related to cybersecurity and data privacy,

- the inability to protect our intellectual property and infringement claims by third parties,

- the inability to retain key personnel,

- business, operational, regulatory, reputation and other risks in connection with climate change,

- ING's ability to achieve its strategy, including projected operational synergies and cost-saving programs and

- the other risks and uncertainties detailed in "Item 3. Key Information – Risk Factors" in this Annual Report on Form 20-F and our filings with the SEC which are available on the SEC's website at http://www.sec.gov.

- ING does not make any representation or warranty with respect to the accuracy or completeness of, or take any responsibility for, any information found at any websites operated by third parties. ING specifically disclaims any liability with respect to any information found at websites operated by third parties. ING cannot guarantee that websites operated by third parties remain available following the filing of this Annual Report on Form 20-F or that any information found at such websites will not change following the filing of this Annual Report on Form 20-F.

Many of those factors are beyond ING's control. Any forward looking statements made by or on behalf of ING speak only as of the date they are made, and ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

PART I

Item 1. Identity of Directors, Senior Management And Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected financial data

The selected consolidated financial information data is derived from the IFRS-IASB consolidated financial statements of ING Group.

The following information should be read in conjunction with, and is qualified by reference to the Group's consolidated financial statements and other financial information included elsewhere herein.

IFRS-IASB Consolidated Income Statement Data

for the years ended 31 December	**2018**	**2018**	**2017**	**2016**	**2015**	**2014**
In millions except amounts per share	**US$**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Continuing operations						
Interest income	31,471	27,747	43,890	44,182	46,321	48,169
Interest expense	15,637	13,787	30,243	30,941	33,760	35,865
Net interest result	15,833	13,960	13,647	13,241	12,561	12,304
Net fee and commission income	3,173	2,798	2,710	2,433	2,318	2,293
Other income	1,776	1,566	2,233	2,228	3,128	617
Total income	**20,783**	**18,324**	**18,590**	**17,902**	**18,007**	**15,214**
Addition to loan loss provision	744	656	676	974	1,347	1,594
Operating expenses	12,116	10,682	9,829	10,614	9,326	10,259
Total expenses	**12,860**	**11,338**	**10,505**	**11,588**	**10,673**	**11,853**
Result before tax from continuing operations	7,924	6,986	8,085	6,314	7,334	3,361
Taxation	2,400	2,116	2,539	1,705	1,924	859
Net result from continuing operations	**5,522**	**4,869**	**5,546**	**4,609**	**5,410**	**2,502**
Net result from discontinued operations	**0**	**0**	**0**	**441**	**–76**	**–1,375**
Net result attributable to Non-controlling interests	122	108	82	75	408	164
Net result ING Group IFRS-IASB attributable to Equityholders of the parent	**5,400**	**4,761**	**5,464**	**4,975**	**4,926**	**963**
Addition to shareholders' equity	2,399	2,115	2,861	2,415	2,411	493
Dividend	3,001	2,646	2,603	2,560	2,515	470
Basic earnings per Ordinary Share	1.38	1.22	1.41	1.28	1.27	0.25
Diluted earnings per Ordinary Share	1.38	1.22	1.41	1.28	1.27	0.25
Dividend per Ordinary Share	0.77	0.68	0.67	0.66	0.65	0.12
Number of Ordinary Shares outstanding in the market (in millions)	3,891.7	3,891.7	3,884.8	3,877.9	3,868.7	3,854.6

Euro amounts have been translated into U.S. dollars at the exchange rate of $ 1.1342 to EUR 1.00, the Noon Buying Rate in New York City on 22 February 2019 for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

The amounts for the period ended 31 December 2018 have been prepared in accordance with IFRS 9, the adoption of IFRS 9 led to new presentation requirements. ING Group decided not to restate comparative periods as permitted by IFRS 9. Reference is made to Note 1 'Accounting policies' for information on Changes in accounting principles, estimates and presentation of the consolidated financial statements and related notes.

The 2016 and prior years results of NN Group and Voya have been transferred to "Result from discontinued operations". For details on Discontinued operations, see Note 29 of Note 2.1 to the consolidated financial statements.

Dividend reported is the amount declared over the year.

Basic earnings per share amounts have been calculated based on the weighted average number of ordinary shares of ING Groep N.V. ("Ordinary Shares") outstanding during the relevant period. For purposes of this calculation, Ordinary Shares held by Group companies are deducted from the total number of Ordinary Shares in issue. The effect of dilutive securities is also adjusted.

IFRS-IASB Consolidated Balance Sheet Data

as at 31 December	**2018**	**2018**	**2017**	**2016**	**2015**	**2014**
In billions except amounts per share or otherwise indicated	**US$**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Total assets	1,003.3	884.6	843.9	842.2	1,002.3	1,174.8
Financial assets at fair value through profit or loss	136.7	120.5	123.2	122.1	138.0	144.1
Loans and advances to customers	668.8	589.7	571.9	560.2	696.9	698.2
Savings accounts	366.0	322.7	319.7	315.7	305.9	295.5
Other deposits and funds	264.3	233.0	220.1	207.2	358.3	374.1
Customer deposits	630.3	555.7	539.8	522.9	664.2	669.7
Deposits from banks	42.3	37.3	36.8	32.0	33.8	30.0
Shareholders' equity	55.6	49.0	48.4	47.3	45.0	47.6
Non-voting equity securities						
Shareholders' equity per ordinary share oustanding	14.30	12.61	12.47	12.2	11.6	12.4
Number of Ordinary shares outstanding (in millions)	3,890.6	3,890.6	3,885.8	3,878.5	3,870.2	3,858.9

Euro amounts have been translated into U.S. dollars at the exchange rate of $ 1.1342 to EUR 1.00, the Noon Buying Rate in New York City on 22 February 2019 for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

ING has changed its accounting policy for the netting of cash pooling arrangements in the second quarter of 2016. Loans and advances to customers and Customer deposits, as at 31 December 2015 and 2014, are adjusted as a result.

The amounts for the period ended 31 December 2018 have been prepared in accordance with IFRS 9. ING Group has applied the classification, measurement, and impairment requirements of IFRS 9 retrospectively as of 1 January 2018 by adjusting the opening balance sheet and opening equity at 1 January 2018. ING Group decided not to restate comparative periods as permitted by IFRS 9. Reference is made to Note 1 'Accounting policies' for information on Changes in accounting principles, estimates and presentation of the consolidated financial statements and related notes.

Shareholders' equity per ordinary share amounts have been calculated based on the number of Ordinary Shares outstanding in the market at the end of the respective periods.

B. Capitalization and indebtedness

This item does not apply to annual reports on Form 20-F.

C. Reasons for the offer and use of proceeds

This item does not apply to annual reports on Form 20-F.

D. Risk Factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. Additional risks of which the Company is not presently aware, or that are currently viewed as less material than the risks described below, could also affect the business operations of ING and have a material adverse effect on ING’s business activities, financial condition, results of operations and prospects. The market price of ING shares or other securities could decline due to any of those risks including the risks described below, and investors could lose all or part of their investments. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Risks related to financial conditions, market environment and general economic trends

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability, solvency and liquidity of our business.

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate values and private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region. In particular, we are exposed to financial, economic, market and political conditions in Germany and the Benelux countries, from which we derive a significant portion of our revenues. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments and lower consumer spending, the demand for banking products is usually adversely affected and ING’s reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders’ equity. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads.

See also ‘—Interest rate volatility and other interest rate changes may adversely affect our profitability’, ‘—Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations’, and ‘—Market conditions, including those observed over the past few years, may increase the risk of loans being impaired’ below.

In case one or more of the factors mentioned above adversely affects the profitability of our business, this might also result, among other things, in the following:

- reserve and provisions inadequacies, which could ultimately be realised through profit and loss and shareholders' equity;
- the write-down of tax assets impacting net results and/or equity;
- impairment expenses related to goodwill and other intangible assets, impacting net result;
- movements in risk weighted assets for the determination of required capital;
- changes in credit valuation adjustments and debt valuation adjustments; and/or

- additional costs related to maintenance of higher liquidity buffers and/or collateral placements.

Shareholders' equity and our net result may be significantly impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies and changes in the regulatory environment in which we operate have in the past had and may in the future have a material adverse impact on shareholders' equity and net result, including as a result of the potential consequences listed above. See '—Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations' and '—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions, the application of such laws and/or regulations or non-compliance with such laws and/or regulations governing our business may reduce our profitability' below.

Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations.

General

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. In Europe, there are continuing concerns over weaker economic conditions, as well as concerns in relation to European sovereign debt, the uncertain outcome of the negotiations between the UK and the EU following the UK referendum on EU membership, increasing political instability, levels of unemployment, the availability and cost of credit, credit spreads, and the end of quantitative easing within the Eurozone through bond repurchases and the ECB's targeted longer-term refinancing operation ('TLTRO'). In the United States, political uncertainty (including the recent US government shutdown), US national debt levels and changes in US trade and foreign investment policies (including tensions with China) may result in adverse economic developments. In addition, geopolitical issues, including with respect to the Middle East, Russia/Ukraine and North Korea may all contribute to adverse developments in the global capital markets and the economy generally.

Adverse developments in the market have included, for example, decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default for fixed income securities. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of. International equity markets have also continued to experience heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including high levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio.

There is also continued uncertainty over the long-term outlook for the fiscal position and the future economic performance of the US within the global economy and potential future budgetary restrictions in the US, with a corresponding perceived risk of a future sovereign credit ratings downgrade of the US government, including the rating of US Treasury securities. A downgrade of US Treasury securities could also impact the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the US government. US Treasury securities and other US government-linked securities are key assets on the balance sheets of many financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. The impact of any further downgrades to the sovereign credit rating of the US government or a default by the US government on its debt obligations would create broader financial turmoil and uncertainty, which would weigh heavily on the global financial system and could consequently result in a significant adverse impact to the Group's business and operations.

In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors' failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors, such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. Historically these factors have resulted in, among other things, valuation and impairment issues in connection with our exposures to European sovereign debt and other investments.

Any of these general developments in global financial and political conditions could negatively impact to our shareholders' equity, solvency position, liquidity, financial condition or profit and loss accounts in future periods.

European sovereign debt crisis

The market continues to have concerns over the direct and indirect exposure of European banks and insurers to the sovereign debt of several EU Member States. These concerns have in the past, and could in the future, result in a widening of credit spreads and increased costs of funding for some European financial institutions. The sovereign debt crisis has also highlighted issues relating to the strength of the banking sector in Europe and the euro. In addition, risks and ongoing concerns about the crisis in the Italian banking sector and its potential spill-over effect into other Member States, deterioration of the political situation in Turkey, as well as the possible default by one or more Member States could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European and other financial institutions, including us. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, and such capital may not be available.

We are also exposed to the risk of downgrades of European sovereign ratings or corporate ratings, because they may affect our financial costs and, as a result, our profitability. Market disruptions in Europe related to sovereign debt and the banking sector continue to be a threat to global capital markets and remains a challenge to global financial stability. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe also have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of, and default on, consumer debt and home prices, among other factors.

There can be no assurance that market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely impacted. Additionally, extreme prolonged market events, such as the recent global credit crisis, could cause us to incur significant losses and may lead to USD funding shortages for EU Banks.

These factors, combined with volatile oil prices, reduced business and/or consumer confidence have negatively affected the economy of main geographic regions where we conduct our business. Our results of operations, liquidity position, capital position and investment portfolio are exposed to these risks and may be adversely affected as a result.

The United Kingdom's withdrawal from the European Union

Although the UK is not a member state of the Eurozone, the decision of the UK to leave the EU (commonly referred to as 'Brexit') remains a major political and economic event and may further destabilize the Eurozone. There continues to be uncertainty with respect to the process surrounding Brexit and the outcome of the ongoing Brexit negotiations, including with respect to the timing of Brexit, any related regulatory changes, and over the future economic relationship between the UK and the rest of the world (including the EU). In particular, it remains possible that the UK's membership in the EU ends without any agreement reached between the UK and EU on the terms of their relationship going forward. Any of these developments could have an adverse effect on economic and financial conditions in the UK, the EU or globally. Although ING has continued to take steps throughout 2018 to prepare for known risks related to Brexit, such as applying for a banking licence in the UK, taking actions for contract continuity and working to establish alternatives in the EU for those euro clearing activities that may be expected to move from London following Brexit, the possible economic and operational impacts of Brexit on the Group and its counterparties remain highly uncertain.

Concerns regarding other Member States' potential exit from the EU or the Eurozone also have emerged following the 'Brexit' referendum. The possible exit from the EU and/or the Eurozone of one or more European states and/or the replacement of the euro by one or more successor currencies could create significant uncertainties regarding the enforceability and valuation of euro-denominated contracts to which we (or our counterparties) are a party and thereby materially and adversely affect our and/or our counterparties' liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in euros is redenominated into a new currency (which may not be easily converted into other currencies without incurring significant cost), (ii) currencies in some Member States may depreciate relative to others, (iii) former EU and/or Eurozone Member States may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the EU and/or the Eurozone) may not recognise and/or enforce claims denominated in euros (and/or in any replacement currency).

Brexit, the exit of other member states from the EU or the Eurozone, or other political changes in Europe may have significant impacts on the main geographic regions where we conduct our business. Our results of operations, liquidity position, capital position and investment portfolio are exposed to these risks and may be adversely affected as a result.

Adverse capital and credit market conditions as well as changes in regulations may impact our ability to access liquidity and capital, as well as the cost of liquidity, credit and capital.

Adverse capital market conditions have in the past affected, and may in the future affect, our cost of borrowed funds and our ability to borrow on a secured and unsecured basis, thereby impacting our ability to support and/or grow our businesses. Furthermore, although interest rates are at or near historically low levels, since the recent financial crisis, we have experienced increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises. In addition, liquidity in the financial markets has also been negatively impacted as market participants and market practices and structures adjust to new regulations.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. The principal sources of our funding include a variety of short-and long-term instruments, including deposit fund, repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and stockholders' equity.

In the event that our current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favourable terms, or at all. Any actions we might take to access financing may, in turn, cause rating agencies to re-evaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counterbalance the consequences of losses or increased regulatory capital and rating agency capital requirements. This could force us to (i) delay raising capital, (ii) reduce, cancel or postpone payment of dividends on our shares, (iii) reduce, cancel or postpone interest payments on our other securities, (iv) issue capital of different types or under different terms than we would otherwise, or (v) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows, regulatory capital and rating agency capital position could be materially adversely affected by disruptions in the financial markets.

As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, which are subject to restrictions, as described in '—As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions.'. Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the 'Basel III' requirements discussed further below under '—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions, the application of such laws and/or regulations or non-compliance with such laws and/or regulations governing our business may reduce our profitability', undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity and capital, resulting in inefficiencies in the cost of managing our liquidity and solvency, and hinder our efforts to integrate our balance sheet.

Interest rate volatility and other interest rate changes may adversely affect our profitability.

Changes in prevailing interest rates may negatively affect our business, including the level of net interest revenue we earn, and the levels of deposits and the demand for loans. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operations. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations. On the other hand, recent concerns regarding negative interest rates and the low level of interest rates generally may negatively impact our net interest income, which may have an adverse impact on our profitability.

A prolonged period of low interest rates, as is currently the case, may result in:

- lower earnings over time on investments, as reinvestments will earn lower rates;

- increased prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios, as well as increased prepayments of corporate loans. This as borrowers seek to borrow at lower interest rates potentially combined with lower credit spreads. Consequently, we may be required to reinvest the proceeds into assets at lower interest rates;

- lower profitability as the result of a decrease in the spread between client rates earned on assets and client rates paid on savings, current account and other liabilities;

- higher costs for certain derivative instruments that may be used to hedge certain of our product risks;

- lower profitability since we may not be able to fully track the decline in interest rates in our savings rates;

- lower profitability since we may not always be entitled to impose surcharges to customers to compensate for the decline in interest rates;

- lower profitability since we may have to pay a higher premium for the defined contribution scheme in the Netherlands for which the premium paid is dependent on interest rate developments and DNB's methodology for determining the ultimate forward rate;

- lower interest rates may cause asset margins to decrease thereby lowering our results of operations. This may for example be the consequence of increased competition for investments as result of the low rates, thereby driving margins down; and/or

- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity and our profitability.

All these effects may be amplified in a negative rate environment. In such environment there may also be the risk that a rate is to be paid on assets, while there is no comparable rate paid on the liabilities. This will reduce our results of operations then.

Rapidly increasing interest rates may result in:

- a decrease in the demand for loans;

- higher interest rates to be paid on debt securities that we have issued or may issue on the financial markets from time to time to finance our operations and on savings, which would increase our interest expenses and reduce our results of operations;

- higher interest rates can lead to lower investments prices reduce the revaluation reserves, thereby lowering IFRS equity and the capital ratios. Also the lower securities value leads to a loss of liquidity generating capacity which needs to be compensated by attracting new liquidity generating capacity which reduces our results of operations;

- prepayment losses if prepayment rates are lower than expected or if interest rates increase too rapidly to adjust the accompanying hedges; and/or

- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge program;

Inflation and deflation may negatively affect our business.

A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates, which may:

- decrease the estimated fair value of certain fixed income securities that we hold in our investment portfolios, resulting in:

- reduced levels of unrealised capital gains available to us, which could negatively impact our solvency position and net income, and/or

- a decrease in collateral values,

- result in increased withdrawal of certain savings products, particularly those with fixed rates below market rates,

- require us, as an issuer of securities, to pay higher interest rates on debt securities that we issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may:

- result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income, and

- lower the value of our equity investments impacting our capital position.

In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing may result in a systemic mispricing of our products, which would negatively impact our results of operations.

On the other hand, deflation experienced in our principal markets may also adversely affect our financial performance. In recent years, the risk of low inflation and even deflation (i.e., a continued period with negative rates of inflation) in the Eurozone has materialized. Deflation may erode collateral values and diminish the quality of loans and cause a decrease in borrowing levels, which would negatively affect our business and results of operations.

Risks related to discontinuation of or changes to 'benchmark' indices

The London Interbank Offered Rate ('LIBOR'), the Euro OverNight Index Average ('EONIA'), the Euro Interbank Offered Rate ('EURIBOR') and other interest rates or other types of rates and indices which are deemed to be 'benchmarks' are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform or be calculated differently than in the past, or benchmarks could cease to exist entirely, or there could be other consequences which cannot be predicted. On 8 June 2016, the EU adopted a Regulation (the 'Benchmarks Regulation') on indices (such as LIBOR and EURIBOR) used in the EU as benchmarks in financial contracts. The Benchmarks Regulation became effective as of 1 January 2018. It provides that administrators of benchmarks used in the EU generally must be authorised by or registered with regulators no later than 1 January 2020, and that they must comply with a code of conduct designed primarily to ensure reliability of input data, governing issues such as conflicts of interest, internal controls and benchmark methodologies. Although the UK Financial Conduct Authority ('FCA') has authorized ICE Benchmark Administration as administrator of LIBOR, on 27 July 2017 the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. The announcement indicates that the continuation of the LIBOR on the current basis cannot and will not be guaranteed after 2021. In addition, after review of EONIA, its administrator the European Money Markets Institute announced that, should market conditions and dynamics remain unchanged, EONIA's compliance with the Benchmarks Regulation by January 2020 cannot be warranted as long as EONIA's definition and calculation methodology remain in their current format. The announcement indicates that EONIA cannot be used in new contracts offered as of 1 January 2020. Public authorities have initiated industry working groups in various jurisdictions to search for and recommend alternative risk-free rates, that could serve alternatives if current benchmarks like LIBOR and EONIA cease to exist or materially change. The work of these working groups is still ongoing.

The potential discontinuation of the LIBOR and EONIA benchmarks or any other benchmark, or changes in the methodology or manner of administration of any benchmark, could result in a number of risks for the Group, its clients, and the financial services industry more widely. These risks include legal risks in relation to changes required to documentation for new and existing transactions may be required. Financial risks may also arise from any changes in the valuation of financial instruments linked to benchmark rates, and changes to benchmark indices could impact pricing mechanisms on some instruments. Changes in valuation, methodology or documentation may also result into complaints or litigation. The Group may also be exposed to operational risks or incur additional costs due to the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes, or in relation to communications with clients or other parties and engagement during the transition period.

The replacement of benchmarks together with the timetable and mechanisms for implementation have not yet been confirmed by central banks. Accordingly, it is not currently possible to determine whether, or to what extent, any such changes would affect the Group. However, the implementation of alternative benchmark rates may have a material adverse effect on the Group's business, results of operations and financial condition.

We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions, the application of such laws and/or regulations or non-compliance with such laws and/or regulations governing our business may reduce our profitability.

We are subject to detailed banking laws and government regulation in the jurisdictions in which we conduct business. Regulatory agencies and supervisors have broad administrative power and enforcement capabilities over many aspects of our business, which may include liquidity, capital adequacy, permitted investments, ethical issues, money laundering, anti-terrorism measures, privacy, recordkeeping, product and sale suitability, marketing and sales practices, remuneration policies, personal conduct and our own internal governance practices. Also, regulators and other supervisory authorities in the EU, the US and elsewhere continue to scrutinise payment processing and other transactions and activities of the financial services industry through laws and regulations governing such matters as money laundering, anti-terrorism financing, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures.

Our revenues and profitability and those of our competitors have been and will continue to be impacted by requirements relating to capital, additional loss-absorbing capacity, leverage, minimum liquidity and long-term funding levels, requirements related to resolution and recovery planning, derivatives clearing and margin rules and levels of regulatory oversight, as well as limitations on which and, if permitted, how certain business activities may be carried out by financial institutions.

Regulators around the world have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently in the implementation phase of, major legislative and/or regulatory initiatives in response to the financial crisis. Governmental and regulatory authorities in the Netherlands, Germany, Belgium, the United Kingdom, the EU, the US and elsewhere have implemented, or are in the process of implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including, among others, in the areas of prudential rules, liquidity and capital requirements, executive compensation, crisis and contingency management, bank taxes and financial reporting. Additionally, governmental and regulatory authorities in the Netherlands, in the EU and the US as well as in a multitude of jurisdictions where we conduct our business continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions). Furthermore, we are subject to different tax regulations in each of the jurisdictions where we conduct business. Changes in tax laws (including case law) could increase our taxes and our effective tax rates and could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, which could have a material adverse effect on our business, results of operations and financial condition. Changes in tax laws could also make certain ING products less attractive, which could have adverse consequences for our businesses and results.

Compliance with applicable laws and regulations is resources-intensive, and changes in laws and regulations may materially increase costs. We expect the scope and extent of regulation in the jurisdictions in which we conduct our business, as well as regulatory oversight and supervision, to generally continue to increase. However, we cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition. Regulation is becoming increasingly more extensive and complex and the industries in which we operate are increasingly coming under the scrutiny of regulators, and affected companies, including ING, are required to meet the demands, which often necessitate additional resources. These regulations can limit our activities, among others, through stricter net capital, customer protection and market conduct requirements and restrictions on the businesses in which we can operate or invest.

Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, we have faced, and in the future may continue to face, the risk of consequences in connection with non-compliance with applicable laws and regulations. For additional information on legal proceedings, see Note 47 'Legal proceedings' to the consolidated financial statements. There are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretations or under development, or where regulations may conflict with one another, or where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, any of these matters appropriately, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages brought against us or subject us to enforcement actions, fines and penalties.

Basel III, CRD IV and CRD V

In December 2010, the Basel Committee on Banking Supervision ('BCBS') announced higher global minimum capital standards for banks and introduced a new global liquidity standard and a new leverage ratio. The BCBS's package of reforms, collectively referred to as the 'Basel III' rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment and limit leverage. Banks will be required to hold a 'capital conservation buffer' to withstand future periods of stress such that the total common equity Tier 1 ratio, which was fully phased in on 1 January 2019, will rise to 7%. Basel III also introduced a 'countercyclical buffer' as an extension of the capital conservation buffer, which would allow national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital that will have the effect of disqualifying many hybrid securities, including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities as part of a number of reforms to the Basel II framework. In addition, the BCBS and the Financial Stability Board ('FSB') published measures in October 2011 that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, 'systemically important financial institutions' ('SIFIs') and so-called 'Global' SIFIs ('G-SIFIs'), in addition to the Basel III requirements otherwise applicable to most financial institutions. In particular, in November 2015 the FSB published the final Total Loss-Absorbing Capacity ('TLAC') standard for G-SIFIs, which aims for G-SIFIs to have sufficient loss-absorbing and recapitalisation capacity available in resolution. In Europe, the TLAC requirements are expected to be implemented into the Capital Requirements Regulation ('CRR II') and Capital Requirements Directive V ('CRD V'). ING Bank has been designated by the BCBS and the FSB as one of the global systemically important banks ('G-SIBs'), forming part of the G-SIFIs, since 2011, and by the Dutch Central Bank (De Nederlandsche Bank N.V., 'DNB') and the Dutch Ministry of Finance as a domestic SIFI since November 2011. The Basel III proposals and their potential impact are monitored via semi-annual monitoring exercises in which ING Group participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel

III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In December 2017, revisions to Basel III were formally announced by the BCBS. These revisions to Basel III establish new prudential rules for banks, including a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. With a long implementation phase and the transposition of these revisions into EU regulation still pending, the impact of such revisions on ING's business and operations is not yet clear.

For European banks, the original Basel III requirements were implemented through the Capital Requirements Regulation ('CRR'), which was adopted by the EC in June 2013 following approval by the European Parliament in April 2013, and the Capital Requirements Directive IV ('CRD IV'). The CRR entered into force on 28 June 2013 and the CRD IV entered into force on 17 July 2013, and all banks and investment firms in the EU (as opposed to the scope of the Basel III requirements, which apply to 'internationally active banks') were required to apply the new rules from 1 January 2014 in phases, and these rules were required to be fully implemented as of 1 January 2019. The full impact of these rules, and any additional requirements for SIFIs or G-SIFIs, if and as applicable to the Group, depend on how the CRD IV is transposed into national laws in each Member State, including the extent to which national regulators and supervisors set more stringent limits and additional capital requirements or surcharges. In the Netherlands, the CRD IV has been implemented through amendments to the Financial Supervision Act. In the next phase for regulatory requirements for banks' risk and capital management, the regulators are focusing on the required capital calculations across banks. Since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and specifically on whether internal models are appropriate for such purposes. These developments have suggested that stricter rules may be applied by a later framework. The BCBS released several consultative papers, containing proposals to change the methodologies for the calculation of capital requirements and is expected to issue further standards in this respect. Within these proposals BCBS suggests methods to calculate RWA using more standardised or simpler methods in order to achieve greater comparability, transparency and consistency. As discussed above, in November 2016, the EC proposed substantial amendments to the CRR and CRD IV (such amendments being commonly referred to as the CRR II and CRD V), the BRRD and the Single Resolution Mechanism Regulation to, among other things, implement these revisions in the EU legislation. Legislation is expected to be finalised early 2019. These proposals will likely impact the capital requirements for currently reported exposures (e.g. credit risk via revised standardised RWA floor) but may also lead to new capital requirements. The proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of 'non-preferred' senior debt, the minimum requirement for own funds and eligible liabilities (MREL) and the integration of the TLAC standard into EU legislation. The proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process. Until the proposals are in final form, it is uncertain how the proposals will affect the Group or holders of its securities. The current proposals, as well as on the economic and financial environment at the time of implementation and beyond, can have a material impact on ING's operations and financial condition and they may require the Group to seek additional capital.

Single Supervisory Mechanism

In November 2014, the European Central Bank ('ECB') assumed responsibility for a significant part of the prudential supervision of banks in the Eurozone, including ING Bank, following a year-long preparatory phase which included an in-depth comprehensive assessment of the resilience and balance sheets of the biggest banks in the Eurozone. ING Bank was among the seven Dutch institutions covered by the assessment (out of 130 institutions overall). While the ECB has assumed the supervisory tasks conferred on it by the Single Supervisory Mechanism ('SSM') Regulation, the DNB will still continue to play a big role in the supervision of ING Group and ING Bank.

In its capacity as principal bank supervisor in the EU, the ECB has extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, and to impose monetary and other sanctions. For example, under the SSM, the regulators with jurisdiction over the Group, including the ECB, may conduct stress tests and have discretion to impose capital surcharges on financial institutions for risks that are not otherwise recognised in risk-weighted assets or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to the Group's business. Competent regulators may also, if the Group fails to comply with regulatory requirements, in particular with minimum capital requirements (including buffer requirements) or with liquidity requirements, or if there are shortcomings in its governance and risk management processes, prohibit the Group from making dividend payments to shareholders or distributions to holders of its regulatory capital instruments. Generally, a failure to comply with the new quantitative and qualitative regulatory requirements could have a material adverse effect on the Group's business, financial condition and results of operations.

In order to make capital levels more comparable and to reduce variability in banks' internal models, the European Central Bank (ECB) introduced the Targeted Review of Internal Models (TRIM) in June 2017 to assess reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models, and the ultimate goal is to restore trust in the use of internal models by European banks. The operating consequences of the TRIM exercise have been significant. The TRIM is expected to finalise in 2019, and could impact ING through more stringent regulation on internal models. There is also heightened supervisory attention for the credit quality of loans to corporates and/or households. These exercises could impact the RWA we recognise for certain assets.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank' or 'Dodd-Frank Act') has imposed and may in the future impose significant additional regulation on ING. Key aspects of Dodd- Frank that are having an impact on the Group include the aspects set out below.

Title VII of Dodd-Frank created a new framework for regulation of the over-the-counter derivatives markets and certain market participants which has affected and could continue to affect various activities of the Group and its subsidiaries. ING Capital Markets LLC, a wholly-owned indirect subsidiary of ING Bank N.V., has registered with the US Commodity Futures Trading Commission ('CFTC') as a swap dealer. The SEC is expected to adopt regulations establishing registration and margin and capital requirements for security-based swaps. Along with the still indeterminate effective date for SEC regulations on, among others, reporting, registration, and internal and external business conduct with respect to security-based swaps, these are likely to materially impact ING. Additionally, the CFTC is expected to adopt capital requirements for swap dealers, although the specific requirements, and any available exemptions, have not been finalized. If these requirements are applicable to ING, and no exemptions are available, it is possible that these requirements will be difficult for ING to comply with and may, as a result, materially and adversely impact ING's ability to operate as a swap dealer in the US Other CFTC regulatory requirements, already implemented, include registration of swap dealers, business conduct rules imposed on swap dealers, requirements that some categories of swaps be centrally executed on regulated trading facilities and cleared through regulated clearing houses, and initial and variation margin requirements for uncleared swaps. In addition, new position limits requirements for market participants that have been proposed and may be contained in final regulations to be adopted by the CFTC could limit ING's position sizes in swaps referencing specified physical commodities and similarly limit the ability of counterparties to utilize certain of our products by narrowing the scope of hedging exemptions from position limits for commercial end users and the trading activity of speculators. All of the foregoing areas of regulation of the derivative markets and market participants will likely result in increased cost of hedging and other trading activities, both for ING and its customers, which could expose our business to greater risk and could reduce the size and profitability of our customer business. In addition, the imposition of these regulatory restrictions and requirements, could result in reduced market liquidity, which could in turn increase market volatility and the risks and costs of hedging and other trading activities.

Pursuant to requirements of the Dodd-Frank Act, the SEC and CFTC are required to consider whether stable value contracts should be regulated as ‘swap’ derivative contracts. In the event that stable value contracts become subject to such regulation, certain aspects of our business could be adversely impacted, including issuance of stable value contracts and management of assets pursuant to stable value mandates.

ING Bank may at some point in time consider whether to establish a branch office in the US. If ING Bank were to establish a US. branch, we would be subject to supervision and regulation by the Federal Reserve under various laws and various restrictions on our activities under those laws, including the Bank Holding Company Act of 1956, as amended, and the International Banking Act of 1978, which could materially impact our operations. These restrictions would include, among others, the Volcker Rule, which generally prohibits certain proprietary trading activities and sponsoring or investing in private funds, such as hedge funds and private equity funds, and heightened prudential standards and additional supervisory requirements. In the event that we or one of our affiliates becomes subject to the Volcker Rule, it is expected that we would experience significant additional compliance and operational costs and may be prohibited from engaging in certain activities we currently.

Dodd-Frank also includes various securities law reforms that may affect the Group’s business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers’ fiduciary duties to their customers, as applied to investment advisers under existing law, which new standard could potentially expose certain of ING’s US broker-dealers to increased risk of SEC enforcement actions and liability. In 2011, the SEC staff released a study on this issue, and members of the SEC’s Investor Advisory Committee voted in November 2013 to recommend the proposal implementing a uniform fiduciary standard for most brokers and registered investment advisers to the SEC.

Although the full impact of Dodd-Frank and its implementing regulations cannot be determined at this time, many of their requirements have had and may continue to have profound and/or adverse consequences for the financial services industry, including for us. Dodd-Frank, in its current form, could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under Dodd-Frank and have a material effect on our results of operations or financial condition.

In 2017, the US Secretary of Treasury issued several reports, after consultation with other financial regulatory agencies, evaluating the current financial regulatory framework against core principles set out by the new US administration. The reports have recommended some revisions to Dodd-Frank and related rules and regulations. There can be no assurance that these or any other future reforms will not significantly impact our business, financial condition and results of operations.

Foreign Account Tax Compliance Act and other US withholding tax regulations

Under provisions of US tax law commonly referred to as FATCA, non-US financial institutions are required to provide certain information on their US account holders and/or certain US investors to the US Internal Revenue Service (“IRS”). A 30% withholding tax is imposed on ‘withholdable payments’ made to non-compliant non-US financial institutions. In addition to FATCA, non-US financial institutions are required to comply with other US withholding and reporting requirements on certain payments. The Group intends to take all necessary steps to comply with FATCA and other US withholding tax regulations. ING is for example updating and strengthening its withholding compliance programme and reviewing, amending and filing the necessary tax returns and information reports.

Many countries, including the Netherlands, have entered into agreements (‘intergovernmental agreements’ or ‘IGAs’) with the US to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs often require financial institutions in those countries to report information on their US account holders to the taxing authorities of those countries, who will then pass the information to the IRS.

If the Group is unable to comply with requirements imposed under IGAs or otherwise comply with FATCA, certain payments to the Group may be subject to withholding under FATCA or other US withholding tax regulations. Payments made with respect to certain products offered by members of the Group may also be or become subject to withholding FATCA. The possibility of such withholding and the need for account holders and investors to provide certain information may adversely affect the sales of certain of the Group's products. In addition, (i) compliance with the terms of IGAs and with FATCA, any regulations or other guidance promulgated thereunder, or any legislation promulgated under an IGA, and (ii) offering products subject to US withholding, may substantially increase the Group's compliance costs. Failure to comply with FATCA and other US withholding tax regulations could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 47 'Legal proceedings' to the consolidated financial statements.

Common Reporting Standard

Similarly, the Organisation for Economic Cooperation and Development ('OECD') has developed a Common Reporting Standard ('CRS') and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. The CRS requires financial institutions to identify and report the tax residency and account details of non-resident customers to the relevant authorities in jurisdictions adhering to CRS. As of 29 October 2018, 104 jurisdictions ('signatory countries'), including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to CRS. The majority of countries where ING has a presence has committed to CRS. The EU has made CRS mandatory for all its member states. The first information exchange by the Netherlands (as for approximately half of the signatory countries) was executed in 2017. Other signatory countries commenced their information exchange in 2018.

The need for account holders and investors to provide certain information may adversely affect the sales of certain of the Group's products. In addition, compliance with the CRS, any regulations or other guidance promulgated thereunder, or any legislation promulgated under the CRS may substantially increase the Group's compliance costs. Failure to comply with the CRS could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects.

DAC6

The measures included in EU Directive 2011/16 after amendment by EU Directive 2018/822 (commonly referred to as 'DAC6') impose mandatory disclosure requirements for taxpayers and intermediaries involving the reporting of cross-border arrangements affecting at least one EU Member State that fall within one of a number of "hallmarks". These hallmarks are broad categories setting out particular characteristics identified as potentially indicative of aggressive tax avoidance. The reporting obligations apply to "intermediaries" (financial institutions like ING may fall under this term) or, in some circumstances, the taxpayer itself. There will be a mandatory automatic exchange of information on such reportable cross-border schemes via the Common Communication Network (CCN) between the Member States which will be set up by the EU. Although DAC6 is not effective until 1 July 2020 and has not yet been implemented in domestic law in all Member States, taxpayers and intermediaries have needed to monitor relevant cross-border arrangements from 25 June 2018. Compliance with the terms of DAC6 may substantially increase the Group's compliance costs. Additionally, there is a risk that ING may fail to timely identify and disclose cross-border arrangements in which it is an intermediary. Failure to comply with DAC6 could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects.

Bank Recovery and Resolution Regimes

In June 2012, the 'Intervention Act' (Wet bijzondere maatregelen financiële ondernemingen) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Intervention Act mainly amended the Dutch Financial Supervision Act and the Dutch Insolvency Act allowing Dutch authorities to take certain actions with respect to a failing bank or insurer that cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of the overall financial system. It comprised two categories of measures. The first category of measures related to banks or insurers facing serious financial difficulties and included measures related to the timely and efficient liquidation of the failing institution. This set of measures gave the DNB the power to transfer customer deposits, assets and/or liabilities other than deposits and issued shares of an entity to third parties or to a bridge bank if the DNB deemed that, in respect of the relevant institution, there were signs of adverse developments with respect to its funds, solvency, liquidity or technical provisions and it could be reasonably foreseen that such developments would not be sufficiently or timely reversed. The DNB was also granted the power to influence the internal decision-making of failing institutions through the appointment of an 'undisclosed administrator'. The second category of measures can be triggered if the stability of the financial system is in serious and immediate danger as a result of the failure of a Dutch financial institution and includes measures intended to safeguard the stability of the financial system as a whole. This set of measures granted authority to the Dutch Minister of Finance to take immediate measures or proceed to expropriation of assets or liabilities, or shares in the capital, of failing financial institutions. Within the context of the resolution tools provided in the Intervention Act, holders of debt securities of a bank subject to resolution could also be affected by issuer substitution or replacement, transfer of debt, expropriation, modification of terms and/or suspension or termination of listings.

In addition, on 26 November 2015 the 'Act on implementing the European framework for the recovery and resolution of banks and Investment firms' (Implementatiewet Europees kader voor herstel en afwikkeling van banken en beleggingsondernemingen) came into force, implementing the 'Bank Recovery and Resolution Directive' ('BRRD') and partly amending the Intervention Act. Certain measures introduced by the Intervention Act were replaced, with respect to banking institutions, with measures based on the BRRD and the SRM Regulation, as described below. The BRRD came into effect on 2 July 2014. It includes, among other things, the obligation for institutions to draw up a recovery plan and for resolution authorities in the Member States to draw up a resolution plan, the resolution authorities' power to take early intervention measures and the establishment of a European system of financing arrangements. The BRRD confers extensive resolution powers on the resolution authorities, including the power to require the sale of (part of a) business, to establish a bridge institution, to separate assets and to take bail-in measures. The stated aim of the BRRD is to provide supervisory authorities and resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. In November 2016, the EC proposed amendments to the BRRD regarding the ranking of unsecured debt instruments in national insolvency proceedings (to include a new category of 'non-preferred' senior debt) and to enhance the stabilisation tools with the introduction of a moratorium tool. The law that enables this new category of non-preferred senior debt was adopted in the Netherlands in December 2018.

The powers granted to resolution authorities under the BRRD include, among others, the introduction of a statutory 'write-down and conversion' power and a 'bail-in' power, which gives the relevant resolution authority the power to, inter alia, (i) cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity, (ii) cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include certain securities that have been or will be issued by ING) of a failing financial institution or group and/or (iii) convert certain debt claims (which could include certain securities that have been or will be issued by ING) into another security, including ordinary shares of the surviving group entity, if any. None of these actions would be expected to constitute an event of default under those securities entitling holders to seek repayment.

In addition to a ‘write-down and conversion’ power and a ‘bail-in’ power, the powers granted to the resolution authority under the BRRD include the two categories of measures introduced by the Intervention Act, as described above. In addition, the BRRD stipulates, among the broader powers to be granted to the relevant resolution authority, that it will confer powers to the relevant resolution authority to amend or alter the maturity date or interest payment date of debt instruments, including by suspending payment for a temporary period, or to amend the interest amount payable under such instruments. None of these actions would be expected to constitute an event of default under those debt instruments or other eligible liabilities entitling holders to seek repayment.

Many of the rules implementing the BRRD are contained in detailed technical and implementing rules, the exact text of which is subject to agreement and adoption by the relevant EU legislative institutions. Therefore, for some rules, there remains uncertainty regarding the ultimate nature and scope of these resolution powers and, when implemented, how they would affect us and the securities that have been issued or will be issued by us. Accordingly, it is not possible to assess the full impact of the BRRD on ING and on holders of any securities issued or to be issued by ING, and there can be no assurance that, once it is fully implemented, the manner in which it is applied or the taking of any actions by the relevant resolution authority contemplated in the BRRD would not adversely affect the rights of holders of the securities issued or to be issued by ING, the price or value of an investment in such securities and/or ING's ability to satisfy its obligations under such securities.

Finally, as part of the move towards a full banking union, on 19 August 2014, the Single Resolution Mechanism ('SRM') came into effect, with the aim to have a Single Resolution Board ('SRB') to be responsible for key decisions on how a bank subject to SSM supervision is to be resolved if a bank is failing or likely to fail and cannot be wound up under normal insolvency proceedings without destabilizing the financial system. The SRB is the European resolution authority for the Banking Union and is fully operational, with a complete set of resolution powers, as of 1 January 2016. The SRB works in close cooperation with the national resolution authorities such as the Dutch national resolution authority. The SRB is also in charge of the Single Resolution Fund (the 'SRF'), a pool of funds financed by the banking sector which is set up to ensure that medium-term financial support is available for orderly resolution of a credit institution. The Group's 2018 contributions to the SRF were EUR 208 million. See 'Regulatory costs' under Note 28 'Other operating expenses' to the consolidated financial statements. Contributions to the SRF are first allocated to national compartments of the SRF, however allocation of contributions to separate national compartments is being phased out and will be eliminated in 2023.

There are certain differences between the provisions of the Intervention Act, the BRRD and the SRM Regulation, which may further bring future changes to the law. We are unable to predict what specific effects the Intervention Act and the implementation of the BRRD and the entry into force of the SRM Regulation may have on the financial system generally, our counterparties, holders of securities issued by or to be issued by us, or on us, our operations or our financial position.

ING has a recovery plan in place to enhance the bank's readiness and decisiveness to tackle financial crises on its own. Effective since 2012, the plan is updated annually to make sure it stays fit for purpose. The completeness, quality and credibility of the recovery plan is assessed annually by ING's regulators. Since 2012, ING has worked together with the different resolution authorities to determine a resolution strategy and to identify potential impediments to resolution. This resulted in a resolvability assessment that is shared every year with the FSB and the preparation of a resolution plan by the SRB. In November 2016, ING concluded that ING Groep N.V. should be the designated resolution entity. At the end of January 2017, the SRB has informed ING that it supports the designation of ING Groep N.V. as the point of entry.

Financial Stability Board

In addition to the adoption of the foregoing measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the FSB, consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance, including executive compensation and risk culture, and a host of related issues associated with responses to the financial crisis.

In November 2015, the FSB published final standards on the adequacy of loss absorbing capacity held by G-SIBs. These comprise: (i) a set of principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution and (ii) a high level "termsheet" setting out an internationally agreed standard on the characteristics and adequacy of TLAC. The key requirement mandates G-SIBs to hold long-term debt that can be written down or converted into equity in the event that a G-SIB is put into liquidation, thereby providing a specific means of absorbing losses and recapitalising the G-SIB. The numbers are significant with the minimum standard requiring a G-SIB to hold TLAC of at least 16% of risk weighted assets and at least 6% of the leverage ratio denominator from 1 January 2019, and at least 18% and 6.75% respectively from 1 January 2022 on. In November 2016, the EC proposed amendments to the CRR and BRRD to implement the FSB's minimum TLAC requirement for G-SIB that are intended to align the TLAC requirement with the minimum requirement for own funds and eligible liabilities (MREL). With regard to MREL, the SRB determined ING's MREL requirement in line with the BRRD and according to their MREL policy. In October 2016, the BCBS issued a final standard regarding the regulatory capital treatments of TLAC holdings of other G-SBIBs, confirming that G-SIBs must deduct from their own TLAC exposures TLAC instruments and liabilities issued by other G-SIBS.

Additional Governmental Measures

Governments in The Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs.

In February 2013, the EC adopted a proposal setting out the details of a financial transaction tax ('FTT') under the enhanced cooperation procedure, to be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is established in the financial transaction tax zone ('FTT-zone') or if the instrument which is the subject of the transaction is issued within the territory of a Member State in the FFT-Zone. 10 Member States have indicated they wish to participate in the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain). The initial proposal contemplated that the FTT would enter into effect on 1 January 2014, which would have then required us to pay a tax on transactions in financial instruments with parties (including Group affiliates) located in such FTT-zone. However, the FTT remains subject to negotiation between the participating Member States and currently it is uncertain whether and in what form and by which Member States the FTT will be adopted. The implementation date of any FTT will thus depend on the future approval by participating Member States in the Council, consultation of other EU institutions, and the subsequent transposition into local law. Depending on its final form, the introduction of an FTT in the Netherlands or outside the Netherlands could have a substantial adverse effect on ING's business and results.

As of 1 October 2012, banks that are active in the Netherlands are subject to a bank tax pursuant to a tax regulation that also includes measures to moderate bonuses awarded to executives at such banks. Increased bank taxes in countries where the Group is active result in increased taxes on ING's banking operations, which could negatively impact our operations, financial condition and liquidity. For information regarding historical regulatory costs incurred by ING, please refer inter alia to Note 28 'Other operating expenses' to the consolidated financial statements.

Additional Tier 1 Securities

In April 2015, ING issued USD 2.25 billion of CRD IV compliant Additional Tier 1 securities (‘AT1 Securities’) and in November 2016, ING issued USD 1.0 billion AT1 Securities. The Dutch parliament adopted Article 29a of the Dutch Corporate Income Tax Act of 1969 (Wet op de vennootschapsbelasting 1969) in 2015 to provide debt treatment of securities similar to the AT1 Securities for the purpose of Dutch Corporate Income Tax (25% rate) and (indirectly) dividend withholding tax purposes (15% non-grossed up rate). ING made interest payments in respect of the AT1 Securities of EUR 90 million for the year 2015, EUR 135 million for 2016, EUR 170 million for 2017 and EUR 175 million for 2018. For 2015, 2016, 2017 and 2018 the amounts were treated by ING as a deductible interest expenses for Dutch corporate income tax purposes and as exempt for Dutch dividend withholding tax purposes. However, there is a risk that the EC will take the view, and that court would uphold such view if contested, that the tax deductibility of interest payments on the AT1 Securities was in contravention of the EC’s temporary state aid rules for assessing public support to financial institutions during the crisis (the ‘Revised State Aid Guidelines’). The Revised State Aid Guidelines provide for strengthened burden-sharing requirements, which require banks with capital needs to obtain shareholders’ and subordinated debt holders’ contributions before resorting to certain state aid measures. If the EC makes a determination that deduction of interest payments on AT1 Securities and other similar securities is inconsistent with the Revised State Aid Guidelines, then ING would be required to pay to the Dutch State any amounts with respect to interest payments that ING previously treated as an expense for Dutch corporate income tax purposes and that have been paid free of withholding taxes (‘AT1 Revised State Aid Guidelines Payment’). For the years 2015, 2016, 2017 and 2018, the aggregate possible AT1 Revised State Aid Guidelines Payment could be EUR 228 million excluding interest. The terms of the AT1 Securities provide that ING can redeem the AT1 Securities only upon the occurrence of specific events (not including a determination that the tax treatment of the AT1 Securities is inconsistent with the Revised State Aid Guidelines) or after 5 years or 10 years (depending on the series) after their date of issuance. Following an amendment of the Dutch Corporate Income Tax Act, interest payments on AT1 Securities are no longer deductible on the basis of Article 29a of the Dutch Corporate Income Tax Act as of 1 January 2019. Due to this change in legislation, the Group believes that there is a reduced risk that ING will be required to make an AT1 Revised State Aid Guidelines Payment.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by existing or new competitors (including non-bank or financial technology competitors). A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors. The Netherlands is our largest market. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank.

Competition could also increase due to new entrants (including non-bank and financial technology competitors) in the markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may rely on new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks. Developments in technology has also accelerated the use of new business models, and ING may not be successful in adapting to this pace of change or may incur significant costs in adapting its business and operations to meet such changes. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. In particular, the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, in particular with respect to payment services and products, and the introduction of disruptive technology may impede our ability to grow or retain our market share and impact our revenues and profitability.

Increasing competition in the markets in which we operate (including from non-banks and financial technology competitors) may significantly impact our results if we are unable to match the products and services offered by our competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices.

The default of a major market participant could disrupt the markets.

Within the financial services industry, the severe distress or default of any one institution (including sovereigns and central counterparties (CCPs)) could lead to defaults by, or the severe distress of, other market participants. Such distress of, or default by, an influential financial institution could disrupt markets or clearance and settlement systems and lead to a chain of defaults by other financial institutions because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a sovereign or financial institution (or a default by any such entity) may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as ‘systemic risk’ and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity, solvency position and/or prospects. In addition, such distress or failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

The inability of counterparties to meet their financial obligations could have a material adverse effect on our results of operations.

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, reinsurers, customers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, continuing low oil or other commodity prices, operational failure or other factors, or even rumours about potential defaults by one or more of these parties or regarding a severe distress of the financial services industry generally, could have a material adverse effect on our results of operations, financial condition and liquidity. Given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed income and foreign exchange markets, including related derivatives.

We routinely execute a high volume of transactions, such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, insurance companies, institutional clients, futures clearing merchants, swap dealers, and other institutions, resulting in large periodic settlement amounts, which may result in our having significant credit exposure to one or more of such counterparties or customers. As a result, we could face concentration risk with respect to liabilities or amounts we expect to collect from specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers or other financial services institutions could therefore have an adverse effect on our results of operations or liquidity.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to cancel coupon payments on the occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to cancel payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business, results of operations or financial condition.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/ or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Also in this case, our credit risk may also be exacerbated when the collateral we hold cannot be liquidated at prices sufficient to recover the full amount of the loan or derivative exposure due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008. The termination of contracts and the foreclosure on collateral may subject us to claims. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Any of these developments or losses could materially and adversely affect our business, financial condition, results of operations, liquidity and/or prospects.

Market conditions, including those observed over the past few years, may increase the risk of loans being impaired.

We are exposed to the risk that our borrowers (including sovereigns) may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may see adverse changes in the credit quality of our borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our financial position and results of operations.

IFRS 9 ‘Financial Instruments’ became effective as per 1 January 2018 and results in loan loss provisions that may be recognized earlier, on a more forward looking basis and on a broader scope of financial instruments than was previously the case under IAS 39. ING has applied the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity as at 1 January 2018. As a result of applying IFRS 9 going forward, a shift in the forward looking consensus view of economic conditions may materially impact the models used to calculate loan loss provisions under IFRS 9 and cause more volatility in, or higher levels of, loan loss provisions, any of which could adversely affect the Group's results of operations, financial condition or regulatory capital position.

Economic and other factors could lead to contraction in the residential mortgage and commercial lending market and to decreases in residential and commercial property prices, which could generate substantial increases in impairment losses. Additionally, continuing low oil prices could have an influence on the repayment capacity of certain corporate borrowers active in the oil and oil related services industries.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.

In the Netherlands and other jurisdictions, deposit guarantee schemes and similar funds ('Compensation Schemes') have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. ING Bank is a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). Until 2015, the costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme had been allocated among the participating banks by the DNB, based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Scheme. Given our size, we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. Such costs and the associated costs to be borne by us may have a material adverse effect on our results of operations and financial condition. On 4 July 2015, the new EU Directive on deposit guarantee schemes had to be implemented by EU member states. As a consequence, the Dutch Deposit Guarantee Scheme has changed from an ex-post scheme, where we would have contributed after the failure of a firm, to an ex-ante scheme where we pay quarterly risk-weighted contributions into a fund for the Dutch Deposit Guarantee Scheme. The fund is to grow to a target size of 0.8% of all deposits guaranteed under the Dutch Deposit Guarantee Scheme, to be reached in July 2024. The Dutch decree implementing the Deposit Guarantee Scheme Directive entered into force on 26 November 2015.

The first ex-ante DGS contribution has been charged in respect of the first quarter of 2016. The build-up of the ex-ante fund will take place in 34 quarters. See also '—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions, the application of such laws and/or regulations or non-compliance with such laws and/or regulations governing our business may reduce our profitability' and '—Bank Recovery and Resolution Regimes'.

Since 2015, the EU has been discussing the introduction of a pan-European deposit guarantee scheme ('EDIS'), (partly) replacing or complementing national compensation schemes in two or three phases. Proposals contain elements of (re)insurance, mutual lending and mutualisation of funds. The new model is intended to be 'overall cost-neutral'.

Discussions will continue in 2019, but it is still uncertain when EDIS will be introduced and, if introduced, what impact EDIS would have on ING's business and operations.

Risks related to the Group's business, operations and regulatory environment

As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions.

ING Groep N.V. is a holding company and, therefore, depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Many of our subsidiaries, including our bank subsidiaries, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to ING Groep N.V.

In addition, our bank subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital and other requirements, as well as restrictions on their ability to use client funds deposited with them to fund their businesses. Additional restrictions on related-party transactions, increased capital and liquidity requirements and additional limitations on the use of funds in client accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of ING Groep N.V., and even require ING Groep N.V. to provide additional funding to such subsidiaries. Restrictions or regulatory action of that kind could impede access to funds that ING Groep N.V. needs to make payments on its obligations, including debt obligations, or dividend payments. In addition ING Groep N.V.'s right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

There is a trend towards increased regulation and supervision of our subsidiaries by the governments and regulators in the countries in which those subsidiaries are located or do business. Concerns about protecting clients and creditors of financial institutions that are controlled by persons or entities located outside of the country in which such entities are located or do business have caused or may cause a number of governments and regulators to take additional steps to "ring fence" or maintain internal total loss-absorbing capacity at such entities in order to protect clients and creditors of such entities in the event of financial difficulties involving such entities. The result has been and may continue to be additional limitations on our ability to efficiently move capital and liquidity among our affiliated entities, thereby increasing the overall level of capital and liquidity required by the firm on a consolidated basis.

Furthermore, ING Groep N.V. has in the past and may in the future guarantee the payment obligations of certain of its subsidiaries, including ING Bank N.V., subject to certain exceptions. Any such guarantee may require ING Groep N.V. to provide substantial funds or assets to its subsidiaries or their creditors or counterparties at a time when ING Groep N.V. or its subsidiaries are in need of liquidity to fund their own obligations.

The requirements for ING Groep N.V. to develop and submit recovery and resolution plans to regulators, and the incorporation of feedback received from regulators, may require us to increase capital or liquidity levels or issue additional long-term debt at ING Groep N.V. or particular subsidiaries or otherwise incur additional or duplicative operational or other costs at multiple entities, and may reduce our ability to provide ING Groep N.V. guarantees for the obligations of our subsidiaries or raise debt at ING Groep N.V. Resolution planning may also impair our ability to structure our intercompany and external activities in a manner that we may otherwise deem most operationally efficient. Furthermore, arrangements to facilitate our resolution planning may cause us to be subject to additional costs such as resolution planning related taxes and funds. Any such limitations or requirements would be in addition to the legal and regulatory restrictions described above on our ability to engage in capital actions or make intercompany dividends or payments.

Ratings are important to our business for a number of reasons. A downgrade or a potential downgrade in our credit ratings could have an adverse impact on our operations and net results.

Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital and funding through the issuance of debt and to the cost of such financing. In the event of a downgrade, the cost of issuing debt will increase, having an adverse effect on its net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity. We have credit ratings from S&P, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time.

Furthermore, ING Bank's assets are risk-weighted. Downgrades of these assets could result in a higher risk-weighting, which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position.

As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies, which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.

We use assumptions in order to model client behaviour for the risk calculations in our banking books. Assumptions are used to determine the interest rate risk profile of savings and current accounts and to estimate the embedded option risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine client behaviour could have a material adverse effect on the calculated risk figures and, ultimately, future results.

We may be unable to manage our risks successfully through derivatives.

We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rates, equity markets and credit spread changes, the occurrence of credit defaults and changes in client behaviour. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts, including, from time to time, macro hedges for parts of our business, either directly as a counterparty or as a credit support provider to affiliate counterparties. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, possibly significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher (un)realised losses, such as credit value adjustment risks or unexpected P&L effects, and unanticipated cash needs to collateralise or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations, resulting in unhedged exposures and losses on positions that are not collateralised. As such, our hedging strategies and the derivatives that we use or may use may not adequately mitigate or offset the risks they intend to cover, and our hedging transactions may result in losses.

Our hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by our strategy. Increased regulation, market shocks, worsening market conditions (whether due to the ongoing euro crisis or otherwise), and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of ING may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with us and/or other parties, affecting our overall ability to hedge our risks and adversely affecting our business, operations, financial condition and liquidity.

Our risk management policies and guidelines may prove inadequate for the risks we face.

We have developed risk management policies and procedures and will continue to review and develop these in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. The methods we use to manage, estimate and measure risk are partly based on historic market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may be significantly greater than suggested by historical experience. For instance, these methods may not predict the losses seen in the stressed conditions in recent periods, and may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers, catastrophic occurrence or other information that is publicly known or otherwise available to us. Such information may not always be accurate, complete, updated or properly evaluated. Management of operational, compliance, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

ING may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change.

Climate change is a challenge which may expose ING to significant risks. The perception of climate change as a risk by civil society, shareholders, governments and other stakeholders continues to increase, including in relation to the financial sector’s operations and strategy, and international actions, such as the Paris agreement on CO2 emissions, may also result in financial institutions coming under increased pressure from such stakeholders regarding the management and disclosure of their climate risks and related lending and investment activities. Additionally, rising climate change concerns may lead to additional regulation that could increase our operating costs or negatively impact the profitability of our investments and lending activities, including those involving the natural resources sector. There may be substantial costs in complying with current or future laws and regulations relating to climate change. Any of these risks may result in changes in our business activities or other liabilities or costs, including exposure to reputational risks, any of which may have a material and adverse impact on our business, results of operation or financial condition.

Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business may adversely impact our business, results of operation and reputation.

We face the risk that the design and operating effectiveness of our controls and procedures may prove to be inadequate. Operational risks are inherent to our business. Our businesses depend on the ability to process a large number of transactions efficiently and accurately. In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we endeavour to safeguard our systems and processes, losses can result from inadequately trained or skilled personnel, IT failures (including due to a computer virus or a failure to anticipate or prevent cyber attacks or other attempts to gain unauthorised access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or impairing operational performance, or security breaches by third parties), inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct, including fraud, or from natural disasters or other external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite our business continuity plans and procedures, certain of our computer systems and networks may have insufficient recovery capabilities in the event of a malfunction or loss of data. As part of our Accelerated Think Forward strategy, we are consistently managing and monitoring our IT risk profile globally. ING is subject to increasing regulatory requirements including EU General Data Protection Regulation (’GDPR’) and EU Payment Services Directive (‘PSD2’). Failure to appropriately manage and monitor our IT risk profile could affect our ability to comply with these regulatory requirements, to securely and efficiently serve our clients or to timely, completely or accurately process, store and transmit information.

Widespread outbreaks of communicable diseases may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. In addition, other events including unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If our business continuity plans are not able to be implemented, are not effective or do not sufficiently take such events into account, losses may increase further.

We are subject to increasing risks related to cybercrime.

Like other financial institutions and global companies, we are regularly the target of cyber attacks. In particular, threats from Distributed Denial of Service (‘DDoS’), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide, and attempts to gain unauthorised access and the techniques used for such attacks are increasingly sophisticated. We have faced, and expect to continue to face, an increasing number of cyber attacks (both successful and unsuccessful) as we have further digitalized including by expanding our mobile- and other internet-based products and services, as well as our usage and reliance on cloud technology. In 2018 we experienced continuous DDoS attacks, of which two DDoS attacks breached our DDoS defences. These two DDoS attacks caused outages of approximately one-hour each, which affected customers of ING in the Netherlands. In addition, due to our reliance on national critical infrastructure and interconnectivity with third-party vendors, exchanges, clearing houses, financial institutions and other third parties, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event.

Cybersecurity and data privacy have become the subject of increasing legislative and regulatory focus. GDPR is an example of a regulation that was implemented in 2018. In certain locations where ING is active, there are additional regulatory requirements that must be followed for business conducted in that jurisdiction. We may become subject to new legislation or regulation concerning cybersecurity or the privacy of information we may store or maintain. Compliance with such legislation or regulation could increase the Group’s compliance costs and failure to comply with new and existing legislation or regulation could harm our reputation and could subject the Group to enforcement actions, fines and penalties.

While we take due care and have policies and processes to protect our customers, systems and networks, and strive to continuously monitor and develop them to protect our technology infrastructure and data, we continue to be vulnerable to misappropriation, unauthorised access, computer viruses or other malicious code, cyber attacks and other external attacks or internal breaches that could have a security impact. These events could also jeopardise our confidential information or that of our clients or our counterparties and this could be exacerbated by the increase in data protection requirements as a result of GDPR. These events can potentially result in financial loss and harm to our reputation, hinder our operational effectiveness, result in regulatory censure, compensation costs or fines resulting from regulatory investigations and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. Even when we are successful in defending against cyber attacks, such defence may consume significant resources or impose significant additional costs on ING.

We are subject to a variety of regulatory risks as a result of our operations in certain countries.

In certain countries in which we operate, judiciary and dispute resolution systems may be less developed. As a result, in case of a breach of contract, we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judicial system, it could have an adverse effect on our operations and net results.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities and or war, in these markets. Furthermore, the current economic environment in certain countries in which we operate may increase the likelihood for regulatory initiatives to enhance consumer protection or to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest, for instance in the event of defaults on residential mortgages.

ING Group may be unable to retain key personnel.

ING Group relies to a considerable extent on the quality of local management in the various countries in which it operates. The success of ING Group’s operations is dependent, among other things, on its ability to attract and retain highly qualified personnel. Competition for key personnel in most countries in which ING Group operates is intense. ING Group’s ability to attract and retain key personnel, in particular in areas such as technology and operational management, client relationship management, finance, risk and product development, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

As part of their responses to the financial crisis of 2008, the EC and national governments throughout Europe have introduced and are expected to continue introducing various legislative initiatives that aim to ensure that financial institutions’ remuneration policies and practices are consistent with and promote sound and effective risk management, and impose restrictions on the remuneration of personnel, with a focus on risk alignment of performance-related remuneration. Such initiatives include, among others, measures set out in Directive 2013/36/EU (CRD IV). Currently, implementation of the CRD IV rules varies significantly across the various Member States. As a consequence there is no level playing field. In addition, the Dutch Law on Remuneration Policies of Financial Undertakings (Wbfo) has introduced a variable remuneration cap of 20% of base salary for employees working in the financial sector in the Netherlands. In some specific situations employees can be exempted and receive variable remuneration up to 100%. One of those exemptions is the so-called average-out exemption which can be applied to employees whose remuneration package is not or not exclusively covered by a collective labour agreement. Although most of the Dutch banks (including ING) have shown that this exemption is only used in exceptional cases and under predetermined conditions this exemption is under a lot of scrutiny from Dutch politicians. The Dutch Minister of Finance already announced that the rules that apply to this exemption will be stricter in the future. The introduction of the Wbfo has created an uneven playing field within the Netherlands for ING due to the fact that branch offices in the Netherlands of financial institutions that fall under CRD IV (i.e. that have their corporate seat in another EER country) are not limited to the 20% cap but can apply to the higher CRD IV caps (e.g. 100%, or up to 200% with shareholder approval).

Since the financial crisis, ING has adapted its remuneration policies to the new national and international standards. Since the full repayment of the state aid by ING in 2014, the total direct compensation for the Executive Board members has been slightly increased, however, it remains below the median of our EURO Stoxx 50 benchmark, which is made up of similar European financial and non-financial institutions. The total direct compensation of the CEO is significantly below the median of the CEO benchmark.

The (increasing) restrictions on remuneration, plus the public and political scrutiny especially in the Netherlands, will continue to have an impact on existing ING Group remuneration policies and individual remuneration packages for personnel. This may restrict our ability to offer competitive compensation compared with companies (financial and/or non-financial) that are not subject to such restrictions and it could adversely affect ING Group's ability to retain or attract key personnel.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results and underlying actuarial assumptions and models.

ING Group companies operate various defined benefit retirement plans covering a number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions, including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. These assumptions are based on available market data and the historical performance of plan assets, and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on our present and future liabilities to and costs associated with our defined benefit retirement plans.

Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects.

We are involved in governmental, regulatory, arbitration and legal proceedings and investigations involving claims by and against us which arise in the ordinary course of our businesses, including in connection with our activities as financial services provider, employer, investor and taxpayer. Financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate-setting processes, notifications made by whistleblowers, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the banking industry, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory, tax and compliance requirements could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect our ability to attract and retain customers and maintain access to the capital markets, result in cease and desist orders, claims, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. See '—ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received'. Our reserves for litigation liabilities may prove to be inadequate. Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on our reputation. In addition, press reports and other public statements that assert some form of wrongdoing could result in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time consuming and expensive. Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects in any given period. For additional information, see the ‘Financial Economic Crime’ paragraphs in the ‘Risk categories’ part within the Compliance Risk in the Risk Management section in the annual report of ING Group. With respect to specific proceedings, see Note 47 ‘Legal proceedings’ to the consolidated financial statements.

We may not be able to protect our intellectual property and may be subject to infringement claims by third parties,

which may have a material adverse effect on our business and results of operations.

In the conduct of our business, we rely on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and trade secret laws to establish and protect our intellectual property. Although we endeavour to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, we may be required to incur significant costs, and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims made by third parties for (1) patent, trademark or copyright infringement, (2) breach of copyright, trademark or licence usage rights, or (3) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licences. Alternatively, we could be required to enter into costly licensing arrangements with third parties or to implement a costly workaround. Any of these scenarios could have a material adverse effect on our business and results of operations.

ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

Our banking products and advice services for third-party products are exposed to claims from customers who might allege that they have received misleading advice or other information from advisers (both internal and external) as to which products were most appropriate for them, or that the terms and conditions of the products, the nature of the products or the circumstances under which the products were sold, were misrepresented to them. When new financial products are brought to the market, ING engages in a multidisciplinary product approval process in connection with the development of such products, including production of appropriate marketing and communication materials. Notwithstanding these processes, customers may make claims against ING if the products do not meet their expectations. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, influence customer expectations.

Products distributed through person-to-person sales forces have a higher exposure to such claims as the sales forces provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historical sales practices and products that were sold in the past, and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historical sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and regulatory changes resulting from such issues, has had and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 47 'Legal proceedings' to the consolidated financial statements.

Additional risks relating to ownership of ING shares

The share price of ING shares has been, and may continue to be, volatile.

- Our share price has experienced periods of volatility in the past, and the price and trading volume of our shares may be subject to significant fluctuations in the future, due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions.

Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- investor perception of our positions and risks;
- a downgrade or review of our credit ratings;
- potential litigation, investigations or regulatory action involving ING or sectors that we have exposure to;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

There can be no assurance that we will pay dividends on our Ordinary Shares in the future.

It is ING's policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. The Executive Board proposes to pay a total cash dividend of EUR 2,646 million, or EUR 0.68 per ordinary share, over the financial year 2018. This is subject to the approval of shareholders at the Annual General Meeting in April 2019. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2018, the final dividend will amount to EUR 0.44 per ordinary share and will be paid in cash. However, there can be no assurance that we will pay dividends in the future.

Holders of ING shares may experience dilution of their holdings.

ING's AT1 Securities may, under certain circumstances, convert into equity securities, and such conversion would dilute the ownership interests of existing holders of ING shares and such dilution could be substantial. Additionally, any conversion, or the anticipation of the possibility of a conversion, could depress the market price of ING shares. Furthermore, we may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to, or otherwise chose not to, participate in future equity offerings with subscription rights.

Because we are incorporated under the laws of the Netherlands and many of the members of our Supervisory and Executive Board and our officers reside outside of the United States, it may be difficult to enforce judgments against ING or the members of our Supervisory and Executive Boards or our officers.

Most of our Supervisory Board members, our Executive Board members and some of the experts named in this Annual Report, as well as many of our officers are persons who are not residents of the United States, and most of our and their assets are located outside the United States. As a result, investors may not be able to serve process on those persons within the United States or to enforce in the United States judgments obtained in US courts against us or those persons based on the civil liability provisions of the US securities laws.

Investors also may not be able to enforce judgments of US courts under the US federal securities laws in courts outside the United States, including the Netherlands. The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, we may not be able to enforce in the Netherlands a final judgment for the payment of money rendered by any US federal or state court based on civil liability, even if the judgment is not based only on the US federal securities laws, unless a competent court in the Netherlands gives binding effect to the judgment.

Item 4. Information on the Company

A. History and development of the company

General

ING Groep N.V. was established as a Naamloze Vennootschap (a Dutch public limited liability company) on March 4, 1991. ING Groep N.V. is incorporated under the laws of the Netherlands.

The corporate site of ING, www.ing.com, provides news, investor relations and general information about the company.

ING is required to file certain documents and information with the United States Securities and Exchange Commission (SEC). These filings relate primarily to periodic reporting requirements applicable to issuers of securities, as well as to beneficial ownership reporting requirements as a holder of securities. The most common filings we submit to the SEC are Forms 6-K and 20-F (periodic reporting requirements) and Schedules 13D and 13G (beneficial ownership requirements). The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. ING's electronic filings are available on the SEC's internet site under CIK ID 0001039765 (ING Groep N.V.).

The official address of ING Group is:	The name and address of ING Group's agent for service of process in the United States in connection with ING's registration statement on Form F-3 is:
ING Groep N.V. Bijlmerplein 888 1102 MG Amsterdam P.O. Box 1800, 1000 BV Amsterdam The Netherlands Telephone +31 20 563 9111	ING Financial Holdings Corporation 1133 Avenue of the Americas New York, NY 10036 United States of America Telephone +1 646 424 6000

Changes in the composition of the Group

For information on changes in the composition of the Group, reference is made to Note 48 ‘Consolidated companies and business acquired and divested’ of Note 2.1 to the consolidated financial statements.

Our Strategy and how we create value

When launched in 2014, the Think Forward strategy anticipated many of the challenges and opportunities driving change in today's financial services market. It continues to show the way as we transform ING to harness the power of digitalisation and platform thinking to create the customer experience of tomorrow.

The Think Forward strategy has provided a blueprint for transforming the customer experience at a time when digitalisation is increasing and mobile devices are rapidly becoming our customers' channel of choice. Inspired by the strategy's Customer Promise – clear and easy, anytime and anywhere, empower, and keep getting better – we have delivered a differentiating digital customer experience through innovations such as digital financial advisors, forecasting tools and instant lending available through award-winning mobile apps as part of an omnichannel approach.

Strong customer satisfaction ratings and a continuing healthy increase in customer numbers show that we are succeeding in staying relevant to customers in a fast-changing market for banking services. The number of retail customers increased in 2018 by a million to 38.4 million. Primary relationships, where customers have a current account with recurring income and at least one other product, increased by more than a million to 12.5 million in 2018. And in net promoter scores (NPS), customers ranked us number one in seven of our 13 retail markets.

Strong and consistent profitability has been driven by the steady increase in our lending business at resilient margins and by growth of fee income. The well diversified increase in lending spans segments and geographies. In particular, lending to businesses and consumers has grown strongly in our Challengers & Growth Markets. In Wholesale Banking, Industry Lending and Transaction Services activities have led to strong increases in lending and fees. And new propositions that add value for customers, like investment options that offer an alternative to low-yielding savings, have contributed to an increase in fee and commission income in our Retail businesses.

ING of tomorrow

While we can look back on many accomplishments since the launch of the Think Forward strategy, we are also conscious of the challenges ahead and the need to keep re-inventing ourselves to remain relevant to customers in the future. The strategic vision embodied in the Think Forward strategy is also guiding us as we navigate a changing world.

Banks can no longer differentiate themselves with products – they've become commodities. The key differentiator of the future will be the customer experience. That experience will be digital, and non-banks are setting the standard.

Fintechs are leveraging easy mobile access, transparency and low cost to compete for lucrative parts of banks' value chains in areas like payments and instant lending. But the biggest challenge is coming from the Big Tech platforms that are setting the digital standard in terms of customer experience and where people spend more and more of their time when they're online – to shop, to socialise, for news and entertainment and for a whole range of other needs.

To compete with Big Tech and other platforms, banks will need to become platforms themselves. They will need to offer the same personal, instant, relevant and seamless experience. They will need to be open to become go-to platforms that keep people coming back, offering third-party products and beyond banking services. And they will

need to becoming experts in managing and analysing customer data in order to know the needs and preferences of their customers, create new offers and improve the customer experience.

The Big Tech platforms are not only disrupting banking with their customer experience. They are now directly competing with banks, Apple Pay is growing rapidly and has expanded to more than 20 countries, WeChat is lending to consumers and Alibaba's Ant Financial now has the world's biggest money market fund by assets. And with tech platforms now leading the rankings of the world's largest companies by market capitalisation, they have the size and scale to be formidable competitors.

At ING, we have three-fold approach to platforms. Firstly, we are developing our own go-to platform for customers' financial needs and relevant offers beyond banking. Secondly, we are pursuing independent initiatives in partnership with others. And thirdly, we are participating on others' platforms. For retail, we develop our own platforms, like Yolt, and only participate on other platforms if doing so drives traffic to ours. For wholesale, in addition to our own platforms, such as Cobase, we participate on third-party platforms where other industry players are active.

To achieve our ambition we are evolving towards one single scalable global platform that will offer a uniform and borderless experience. And one that is open so we can also provide relevant third-party and beyond banking offers. This involves standardising IT using a modular approach in order to create a scalable platform that can accommodate growth at low cost. To support this we are developing standardised processes and shared services, one way of managing data, and one agile way of working across ING. As an intermediate step we are converging businesses with similar customer propositions, such as in the Benelux where we are integrating our platforms and harmonising business models, the Model Bank initiative where we're developing a common platform to roll out in five European countries and Welcome in Germany where we're developing a go-to financial platform offering our own and third-party services.

One important area where we believe banks can differentiate themselves is privacy. With their tradition of safeguarding people's money and financial information, by extension they enjoy an advantage over tech platforms when it comes to whom people trust most with their data. By building on that trust, we can create appealing propositions for users of our platform and profitable models for cooperating with other platforms, including Big Tech.

Elements of our strategy

Our Think Forward strategy was launched in 2014. It guides everything we do. This section describes the strategy and includes references to examples and additional information on how our strategy links to the material topics identified by our stakeholders.

Strategic priorities

To deliver on our Customer Promise and create a differentiating customer experience, we have identified four strategic priorities:

1. Earn the primary relationship

Earning the primary relationship is a strategic priority for ING as it leads to deeper relationships, greater customer satisfaction and ultimately customers choose us for more of their banking needs. In Retail banking we define primary customers as those with multiple active ING products, of which one is a current account where they deposit a regular income such as a salary. For Wholesale Banking it means being the lender of choice and having an appropriate volume of flow products in Transaction Services, Working Capital Solutions and Financial Markets.

2. Develop data analytics

With the further digitalisation of banking, data is an important asset that helps us improve the customer experience and earn the strategically important primary relationship. We rely on data to understand what customers want and need. We use these insights to personalise our interactions with customers and empower them to make their own financial decisions. Data skills are also essential to know our customers from a regulatory and risk perspective, to prevent fraud, improve operational processes, and generate services that go beyond traditional banking. At ING, we recognise that excelling at data management is a core competency if we are to realise our ambition to create a personal digital experience for customers. We are on course to implement one global approach to data management to ensure we maximise the potential of this key resource. Discussions in society about data privacy and the tightening of data privacy legislation and regulations, such as embodied in the EU's General Data Protection Regulation (GDPR) , are raising awareness of this important issue. At ING, we are committed to handling customer data safely and being open about how we use it.

3. Increase the pace of innovation to serve changing customer needs

Evolving customer expectations, new technologies and new competitors are transforming banking. Through innovation, we can increase efficiency, improve the customer experience and gain competitive advantage. We do that, for example, through ING's own PACE innovation methodology and employee-driven Innovation Bootcamps. To speed up the pace of innovation we also partner with outside parties, including fintechs.

4. Think beyond traditional banking to develop new services and business models

Persistent low interest rates and disruption from the rise of new non-bank entrants in the financial services sector are challenging banks' traditional business models. Thinking beyond traditional banking is crucial in order to find new ways to be relevant to our customers. Here open banking offers opportunities. By partnering with others or developing our own digital platforms, we can offer customers new and complementary services that go beyond banking – and create new revenue streams for ING.

Enablers

Four strategic enablers support the implementation of our strategy: simplifying and streamlining our organisation, operational excellence, enhancing our performance culture and diversifying our lending capabilities.

1. Simplify and streamline

Simplify and streamline refers to ING's aim to become a more effective, cost-efficient and agile organisation with the flexibility to respond to fast-changing customer needs and low-cost competitors. To facilitate the bank's digital transformation and respond faster to changing customer needs we are introducing one Way of Working (WoW) across ING, which organises employees in multi-disciplinary, cross-functional 'squads'. WoW has been introduced in the Netherlands, Poland, Romania, Belgium, Austria, Spain and Germany as well as in Wholesale Banking and several support functions. The design and implementation for other countries and support functions is in full swing. ING is the first bank to adopt the methodology in several countries and in Wholesale Banking.

2. Operational excellence

Operational excellence requires continuous focus. We need to ensure that ING's operations provide a seamless and flawless customer experience. Our operational excellence vision concentrates on the Customer Promise. To meet changing customer expectations arising from increasing digitalisation, we aim to converge to a single platform for financial services that will deliver a uniform customer experience across borders. This will be based on simplified and standardised products and systems supported by modular architecture, integrated and scalable IT systems, and shared services. While pursuing this ambition we are also investing to provide stable IT systems and platforms so we are there for our customers when they need us and to provide them with the highest standards of data security.

3. Performance culture

We believe there are strong links between employee engagement, customer engagement and business performance. This is why we continually improve our performance culture by creating a differentiating employee experience and enhancing the capabilities of our leaders. By focusing on delivering a great employee experience and by stepping up our leadership capabilities we develop our employees' capabilities and engagement to deliver on our purpose and strategy.

Step Up Performance Management is a comprehensive performance management process that also assesses people against ING's Orange Code values and behaviours. It focuses on managing performance on a continuous basis, including through 'continuous conversations' between managers and their reports.

The Think Forward Leadership Programme (TFLP) aims to develop greater leaders and better managers who can engage staff and enhance team performance. The first phase of the programme was introduced in 2017, initially to senior leaders. It focused on the Orange Code, personal purpose and the Think Forward strategy. In 2018 it was extended to all people managers globally as the TFL Experience (TFLE), a four-day programme with follow-up learning activities. A total of 4,100 leaders and managers have so far participated in TFLP and TFLE

In the Netherlands and Belgium we initiated ‘i for integrity’, in 2018 an approach aimed at strengthening a mind-set that puts integrity above all. The approach focuses on increasing employees’ knowledge and equipping them to make balanced decisions when facing dilemmas in their jobs, to comply with all applicable laws, standards and regulations, and to act with integrity always.

One of the challenges ING faces is finding, attracting and retaining people with the skills we need to build a digital, data-driven bank. A large proportion (more than half) of vacancies at ING are currently related to data or technology skills, and this is expected to grow in the coming years. However, competition in the market for these talents is fierce.

To help us recruit new talents we took steps in 2018 to upgrade our careers site and introduce a global approach. This includes further developing the global employer brand and introducing targeted cross-border sourcing to find suitable candidates for more difficult-to-fill profiles.

In 2018, we defined a new direction to promote a more diverse and inclusive workforce, introducing ‘mixed teams’ and the 70 percent principle. This principle strives for 30 percent difference in team make-up. Mixed teams include all types of diversity, both visible and less visible. Ultimately, managers are responsible for building mixed teams by choosing the dimensions of diversity to focus on while also being guided by the global 70 percent principle as far as possible. At the same time, we will continue our efforts to make all people feel included whatever their background, culture, experience, religion or sexuality.

4. Lending capabilities

Broadening and diversifying our lending capabilities to continue to grow client franchises is our fourth strategic enabler. To do so, we are seeking opportunities in Retail, SME and Consumer Lending segments, as well as focusing on Wholesale Banking lending growth in our Challengers & Growth (C&G) Markets businesses and in our specialised Industry Lending franchise. In 2018, we continued to grow and diversify lending at healthy margins, with net core lending growth of €36.6 billion, or 6.4 percent. Our ambition is to continue to grow profitably within our risk appetite, but given market dynamics we expect lower growth in Wholesale Banking.

Innovation and transformation

If ING is to fulfil its purpose of empowering people to stay a step ahead in life and in business, it must continue to be where its customers are. Nowadays, that's on digital platforms: our own and those of others. It's here we need to offer one consistently superior ING experience, one that is instant and borderless. But to do this, we have to break down borders and become one united ING.

Innovation and transformation play a major role in this one experience. This chapter outlines how ING is preparing for a future in the platform age. In innovation, it's how we aim to stand out from the competition by offering people a better experience, one that is more personal, instant, relevant and seamless. In our transformation, it is what we are doing to build one ING, one digital bank with one foundation, one way of working and one digital banking platform.

Platforms

For some, becoming a platform business or even being platform-curious, is a relatively new phenomenon. But the reality is that Big Tech companies, like Facebook, Alibaba, WeChat and others have, been platform-based, for over a decade. They are the success stories of the digital age. They've continually raised the bar when it comes to the user experience that people expect, whether it be to buy things, socialise, explore, learn, travel, entertain or be entertained. People expect platforms to meet their demand for goods and services. It is why people spend so much time on them and keep coming back.

Being where customers are is a big part of what makes any business successful. We have to continue to evolve if we are to earn a place in customers' lives. That means being on these digital platforms and creating our own platforms to be able to understand and serve customers better.

In many ways, moving towards platform thinking isn’t a radical shift but rather an extension of what we’ve always done - empower people to take control of their own situations. Like traditional marketplaces, platforms connect suppliers with customers. The difference is that platforms are enabled by technology, which can be used to achieve huge scale at little cost. And it’s not just customers who benefit, it is also suppliers who are able to create value at scale. Platforms scale quickly and, as a result of all of that, provide lower-cost structures for supplier offerings. Then there’s the data that can be used to develop new products and services and personalise the user experience.

Connecting to existing platforms offers ING little space for building meaningful customer relationships. In making an Amazon purchase, for instance, the payment service is just a click. Secure a consumer loan? Two clicks. There's not much room for a differentiating, or superior customer experience here. So ING's future depends on becoming a platform ourselves or building independent platforms. To make that happen, we have to give people very good reasons to come to us. Something very different from what they can get anywhere else. Something that empowers them to get ahead. And that's what we're aiming to do.

The main characteristics that make platforms so successful is that they provide simplicity, convenience and personalisation as well as one consistent way to interact with customers.

Business transformation

To create one user experience for all of our more than 38 million customers, we have to be one ING. We need to build a single global foundation that is the same everywhere, one that has the same approach to data, the same IT infrastructure, the same processes and similar products and services.

In 2016, ING announced a series of programmes to unite similar businesses and bring us closer to one mobile-first digital platform that offers a uniform and superior customer experience.

The main business transformation programmes are:

- Unite be + nl (formerly Orange Bridge), to unite Belgium and the Netherlands. Become one bank across two countries, combining both countries’ strengths for a more consistent experience, with one integrated banking platform and a harmonised business model.

Highlights: Created a cross-border delivery organisation, combining business and IT in both countries. A new harmonised retail organisation was launched offering extended opening hours for all Belgian customers and completing the first joint marketing campaigns.

- Welcome, to digitalise ING in Germany and create a go-to financial platform offering its own and third-party services.

Highlights: The first release of the Go2Place platform was launched among a host of features including shared navigation, full account overview, new search function, a money management tool, and a new digital current opening process for joint account holders.

- Model Bank, To move Retail banks in France, Spain, Italy, the Czech Republic and later Austria towards becoming one bank; one borderless, scalable unified customer engagement platform, providing a personalised customer experience.

Highlights: The expertise of several ING countries is being combined to build a best-in-class mobile (and digital) platform based on scalable IT infrastructure. The platform will be used to serve several countries with a consistent omnichannel experience, which will bring a strong improvement in experience for customers in the respective countries. A first version was launched in the Czech Republic in December 2018. The platform will be developed further and introduced gradually in the coming years.

- Wholesale Banking TOM, further digitalising and standardising Wholesale Banking products, processes and customer propositions across all continents.

Highlights: Approximately 18,000 customers are now using Wholesale Banking's Inside Business digital portal. The introduction of a single platform for loans and trade finance has been extended across the network, with a consolidated Financial Markets franchise in the UK, over 650 IT applications decommissioned and numerous customer experience process improvements including consistent account opening process for international corporate clients in 18 countries.

Supporting these business transformations are target operating models (TOMs) uniting support services globally such as HR, Finance, IT and Procurement, and the enablers, the so-called foundations: IT, global data management, process management, shared services and ING's one agile Way of Working (WoW).

Transformation management

Managing ING's transformation is the task of the chief transformation officer and the Global Transformation Office. Transformation management is important in connecting all country, business line and function workstreams. In 2017, we launched a bank-wide transformation management method with a set of standardised tools and processes, aimed at ensuring our strategy is executed and ING is united in a seamless way. The way we do that is built on agile principles and introduces one Way of Working for transformation as an enabler for global collaboration and knowledge sharing. It includes quarterly business reviews to improve planning and prioritisation, 'gated' processes and 90-day delivery cycles. All are designed to ensure the execution of our Think Forward strategy and ultimately lead to a better impact on customers and other stakeholders.

Running a bank-wide transformation is complex. It involves many interdependencies between different workstreams and may involve trade-offs in local priorities or autonomy so that we prioritise what is best for the bank on a global level. Our transformation management method helps speed-up decision making, resolve issues when they arise and re-plan. All this needs to be done while minimising any adverse impacts and keeping the bank safe, secure and compliant.

Technology

Information technology remains crucial to ING’s platform ambitions. IT enables programmes such as ING Private Cloud and TouchPoint Architecture and contributes to major strategic programmes.

The IT target operating model introduced last year is in line with the Think Forward strategy. It aims to create speed, scale and security as well as cost efficiency and growth, with one purpose, one common backlog and one technology platform.

The quality of our people makes a difference in the quality and efficiency of our services. We aim for a global, collaborative workforce of highly skilled engineers meaning that we assess and calibrate our engineering workforce using one engineering profile. In 2018, more than 80 percent of our internal engineering staff have adopted one engineering profile and more than 60 percent of our workforce has implemented one Way of Working, both marking an increase from a year earlier.

TouchPoint Architecture (TPA)

TouchPoint Architecture is an open technology foundation that enables ING to become a global scalable bank and is one of the foundations for ING's Think Forward strategy. Producers can share services and for others can combine these services into scalable business propositions across the bank and for third parties.

TPA helps simplify and standardise ING's banking applications and supports the creation of a modular system with fewer constraints and limitations. This modularity is a big step towards a globally scalable banking platform that offers customers everywhere a consistent experience and truly global proposition. Aside from unlocking global scalability, TPA facilitates innovation across countries and business units and accelerates time to market. The use of web components provided as part of TPA further increased during 2018 and contributed to one user experience across the bank. They were used, for instance, in the Model Bank programme.

In 2018, ING launched the ING Developer Portal which makes it easy for internal developers to access ING's APIs to accelerate the bank's digitisation globally. Selected APIs are also available for third parties so they can create new and innovative customer experiences.

ING Private Cloud (IPC)

IPC is the digital platform used to store and process data and IT services such as mobile phone apps. It is one of the steps we take towards giving customers a consistent experience in a secure and reliable way. IPC standardises ING’s IT infrastructure, simplifies and streamlines existing processes, and brings an automated and self-service infrastructure to development and operations teams. The IPC has reduced time-to-delivery of infrastructure from an average of more than 10 days to less than an hour. It also reached 100 percent availability in 2018 allowing us to provide products to customers much quicker. In 2018, we expanded the service portfolio in the IPC and increased our global adoption of IPC, from around 3.5 percent of total global infrastructure in 2017 to over seven percent by the end of 2018.

Reliability and stability

An excellent customer experience relies on ING always being available when and where customers need us. Given ING's digital ambitions, we continually strive to improve the availability of online channels (internet and mobile). In 2018, ING recorded 99.7 percent weighted system availability towards Retail customers in the Netherlands and Belgium. In addition, system availability for Wholesale customers (globally) was 99.9 percent.

Data

A digital bank is driven by data. We use it to improve processes and make better management decisions. Data provides meaningful customer insights that help ING to understand customers better and develop innovative data-driven products that personalise and improve their experience.

However, raw data in itself has little value. To be meaningful it needs to be sorted, harmonised and put into context. To do this in an efficient and effective way, ING developed a data management strategy in 2016 to standardise data definitions and data models. This strategy ensures the availability, quality, integrity, usability and control as well as global governance of our data. A feature of this strategy was the introduction, in 2016, of common data language ING Esperanto. The aim is for 95 percent of core data to be in ING Esperanto by the end of 2019.

Data privacy

People entrust banks with confidential information that they expect us to keep safe. It is important that we maintain that trust and comply with our legal obligations around data protection, which can differ from country to country. We are transparent about what we do with the personal data of customers, employees, suppliers and business partners, and only process it for specific business purposes. Our approach can be summarised as: the right people use the right data for the right purpose.

From 25 May 2018, ING has been subject to the data protection requirements outlined in the EU General Data Protection Regulation 2016/679 (GDPR). In 2013, ING implemented data protection requirements on a global scale, through its Global Data Protection Policy (GDPP). The GDPP has been implemented in each country where ING operates and is being updated to reflect GDPR requirements. To know more about what personal data ING collects, what we do with it and who we share it with, go to our Privacy Statement on ing.com or any local ING website.

Data ethics

ING’s data ethics approach is an integral part of our behaviour and decision-making and is embedded in ING's Orange Code. It consists of data ethics values and principles that are applicable for the whole organisation. Both global and local data ethics councils have been introduced to advise ING business units and help ensure that complex queries or dilemmas relating to data ethics are dealt with properly.

Operational excellence

We promise customers we'll keep getting better. One way is by simplifying and standardising end-to-end processes. Some processes are internal, such as for HR and compliance, others impact customers directly, like mortgages, lending and payments. Making them easier will lead to a superior customer experience, higher quality processes and greater efficiency.

Shared services

Operational, IT and support tasks are being centralised in shared service centres. In 2016, ING set up a fully-owned service company ING Business Shared Services BV (IBSS) to consolidate all such centres in one specialised non-banking legal entity. Currently, IBSS has four foreign branches. The Bratislava branch concentrates on daily banking operations support. Branches in Katowice and Bucharest predominantly provide ING Tech services. The Manila branch is a multi-functional centre providing services to all domains with an extensive operational platform targeting Wholesale Banking franchises.

Global Process Management

ING's Global Process Management (GPM) department was established in 2016 to improve the customer experience for the bank's markets, including Market Leaders, Wholesale Banking, as well as Challengers & Growth Markets. It does this by introducing a single, global approach to improving end-to-end processes and a common way to manage those processes and standardise across business units.

Some of its achievements in 2018 include designing global mortgage, consumer lending and payment account processes. GPM also put in place a global process infrastructure with global process model tooling.

Way of Working

To respond quicker to changing demands and customer feedback, encourage an innovative mind-set and engage employees, ING's one agile Way of Working (WoW) unites employees in multidisciplinary, cross-functional teams. End-to-end responsibility of tribes and squads empowers them to collaborate more easily and effectively across the organisation.

WoW has been introduced in the Netherlands, Poland, Romania, Belgium, Austria, Spain and Germany as well as in Wholesale Banking and COO Finance. The design and implementation for other countries is in full swing. ING is one of the first banks to adopt the methodology.

Uniting so many different cultures is a challenge that requires a behavioural shift, guided by our Orange Code. Cultural differences between countries are challenging but not unsurmountable. This new Way of Working, with trust an important component, also tends to be more difficult for leaders and managers than those on the working floor. Special leadership training programmes have been organised for local leaders to prepare them for such behavioural change. We've also organised monthly bootcamps to train Way of Working ambassadors from the countries and business units.

Security

ING is committed to the digitalisation of business processes, to make it easier for customers to do their finances. At the same time, it recognises cybercrime as a major threat in all sorts of areas. For that reason, it is an integral part of our strategy to make customers aware of the risks that are out there. We have special solutions for Wholesale Banking clients, while Retail customers are provided with information via our digital channels and interaction with our apps.

The ever-increasing professionalisation and automation of criminal organisations remains a concern. The growing use of online services, with some less careful with personal data, makes it easier for criminals. Training and awareness of employees is a crucial part of ING's preventive measures. Our all-staff online integrity programme is regularly updated with the latest cybercrime trends and prevention measures. In addition, special 'risk days' are organised for staff, highlighting specific risk themes and how to be resilient against them.

To fight cybercrime, ING also maintains a strong global cybercrime alliance with the financial industry, law enforcement authorities, governments and internet service providers.

‘White hat’, or ethical computer hackers are invited to share their observations using ING’s Responsible Disclosure programme as published on ING.com.

Cybercrime resilience

Distributed Denial of Service (DDoS) attacks are increasing in size, frequency, and complexity. DDoS attacks against Dutch banks have increased in magnitude and new techniques continue to surface. Global developments are monitored in close cooperation with other banks and government institutions. Preventive measures are in place for ING data centres and organisational resilience to DDoS attacks is continuously tested.

The ‘threat’ landscape and ‘advanced persistent threat’ indicators are closely monitored. Preventive measures are taken where needed. Cyber-resilience reporting is part of standard risk governance processes.

Cybercriminals are also increasingly using advanced malware, to gain access to the IT systems of banks and their customers. New gateways to access the internet for users and applications have been implemented to strengthen malware resilience and to prepare for open banking under the European Payments Directive (PSD2).

Artificial intelligence and robotics

ING is accelerating the integration of robotics and artificial intelligence to help customers and ING remain a step ahead. Customers increasingly are using AI-supported services such as Amazon's Alexa and Google Home. They also expect more predictive capabilities in their products and services, so meeting that customer demand is important.

The bank established a Global Analytics Unit in 2018 aimed at speeding up analytic capabilities and transforming ING into a truly data-driven company. Examples of recent projects include machine learning in anti-money laundering and transaction monitoring, the use of chatbots and voicebots, the use of text mining techniques to improve efficiency in back office operations and risk models that drive the efficient use of capital.

Chatbots

ING uses a number of chatbots in its Retail and Wholesale Banking operations. Some examples include Belgium's 'Marie', a chatbot that instantly helps customers with debit and credit card questions through Facebook Messenger. In the Czech Republic, staff developed an in-house conversational mobile banking app that uses both text and voice to offer a variety of services, including checking balances on savings accounts, sending money and purchasing funds. In Wholesale Banking, a chatbot called 'Bill' is integrated into our Inside Business platform. It answers FAQs as well as questions on cut-off times, while in Germany the 'pING' chatbot has been integrated into ING's search function answering FAQ's and queries based on existing public web content.

In the Netherlands, Kijk Vooruit, or 'look ahead' in English, is a forecasting tool that uses advanced analytics to show planned and predicted transactions, helping customers to keep a grip on their finances and avoid going into the red. The Netherlands also uses ‘Inge’ who provides transactional information and automatically starts a conversation when asked about making a payment request. Australia (Lionel), Turkey (INGo), Poland (My Assistant and Kinga) and Italy (Leo) also have chatbots in operation.

Digitalising manual activities

Robotic Process Automation (RPA) uses robotic software scripts to digitalise manual activities. ING currently has around 1,200 RPA applications in use in a wide variety of business units including Retail, SMEs and Mid-Corps as well as Wholesale Banking. Customers benefit from their use because robots tend not to make mistakes and are able to work 24 hours a day, seven days a week. Some examples of RPA in action include know your customer name screening, opening and closing current accounts and finance report generation.

The use of robotics is widespread throughout the bank, with ING in Poland, in particular, responsible for 700 of the 1,200 robots currently in use.

To ensure consistent use between ING countries, a global scripters community has been formed to share information and best practices.

Innovation

Innovation is a strategic priority for ING. It is important that ING not only transforms into an innovation-enabled organisation, but also increases the number of adjacent and disruptive innovations in the market.

For ING, innovation is about the three Cs: empowering customers and creating a differentiating experience, taking ING's culture of innovation to the next level and connecting ecosystems to boost innovation.

Innovation culture

ING uses a structured process called PACE to accelerate innovation internally. PACE is a combination of Lean Start-up, Agile Scrum and Design Thinking methods. In 2018, four business units and ING Labs participated in an Accelerator programme. The PACE Accelerator is a 12-week programme that speeds up time-to-market by testing ideas for new products and services and validating them with customers through experimentation.

In 2017, the PACE Everyday programme was introduced to teach employees how to innovate in their daily work. Last year this evolved into a hands-on programme to teach employees in 10 countries how to apply PACE in a more independent way. By the end of 2018, 6,941 employees were trained in PACE. For example, ING in Spain used the PACE methodology to improve the experience of new customers by analysing processes in depth from their perspective. This revealed that processes were designed per product and not from the point of view of someone wanting to join the bank. They were subsequently redesigned. Business benefits as a result of the new processes are expected in 2019.

ING's annual Innovation Bootcamps encourage employees to come up with new ways to improve the customer experience and compete for a place in one of our ING Labs accelerators. In 2018, employees were given three 'beyond banking' challenges to find platform business models in the areas of housing, leisure and sector ecosystem. The three winners, KYChain (a distributed ledger technology-based platform for KYC), HelloYou (making online identification fast and secure), and CareConnect (connecting caregivers and service providers), were given the opportunity to pitch for funding and have their ideas accelerated in ING Labs.

Employee-generated innovation has proved to be an excellent source of ideas with a number of the previous Innovation Bootcamp finalists making it to market including Easy Trading Connect, Buy Rely, Orange Assistant (debuted in Australia in 2018 after being launched in Turkey in 2017), Direct Lease, Banking of Things and Startarium.

Ideas originating from ING's Legal team were recognised at the 2018 FT European Innovative Lawyer Awards. ING in the Netherlands' Tribe Legal won the FT Innovative Lawyers Award in the category: Strategy and changing behaviours.

Last year, also saw the introduction of ING Labs, bringing disruptive ideas to market by combining the bank's knowledge and network with the knowledge and skills of others. Labs in Amsterdam (formerly ICEC), London and Singapore are dedicated to validating and launching disruptive businesses. They concentrate on specific 'value spaces' that best match the expertise and ecosystems in their locations.

Incorporating what was formerly the Wholesale Banking accelerator, initiatives originating from here include Suburbia, which provides alternative data that clients can use to make better decisions faster, and cybersecurity tool Wyse. Developed in 2017 with start-up Digital Trust, Wyse is a game-based platform that uses behavioural science to help company employees make safer decisions, effectively becoming its first line of defence against cybercrime. A commercial pilot started in 2018, offering companies a new service that goes beyond banking.

Another innovation born in ING Labs is Vakt, a blockchain-based post-trade management platform for the largest commodity players in the world. Now driven by nine leading energy companies and banks, it aims to eliminate reconciliation and paper-based processes, enhance efficiency and create new trade finance opportunities.

ING also has an Innovation Fund to accelerate innovation across the Bank. These funds are available for all business units that need resources to bring their radically different ideas to life. We look for ideas that have the potential to disrupt how we do things or chart new territory.

As well as ING Labs, Belgium’s Fintech Village looks for technology-driven start-ups that either offer solutions relevant for financial institutions or help ING provide superior financial services to customers.

Most business units have dedicated innovation centres of expertise embedded to boost the culture of innovation. Innovations stemming from ING's business units include One Pay in Spain which consolidates a customer's debt with a view to improving their financial situation in a customer-centric way, and 'INGo' in Turkey, a chatbot for customer interaction on loan applications. In 2018, it resulted in 6,200 new loan applications with the chatbot able to pick up 97 percent of chat conversations. The remaining three-percent of chats were handled by live agents.

Partnering with and investing in fintechs is an important element of ING's innovation strategy. By the end of 2018, we had more than 150 different partnerships. In 2017, we set up ING Ventures, a €300 million fund that invests in fintech companies around the world. It aims to build a portfolio of investments to help ING accelerate the pace of innovation. The fund is available for both seed and scaling-stage investments. As of end of 2018, ING Ventures had made 26 investments. These include fintechs like, Clark, Fintonic, Funding Options, TradeIX, Twisto and WeLab as well as ING-established companies such as Yolt, Cobase, Payconiq and Twyp. Four ING Ventures portfolio companies made it to the CB Insights Top-250 fintechs worldwide.

Not all of ING’s collaborations or innovations lead to new products or services and we have stopped more than 60 partnerships mostly after unsuccessful or unsatisfactory proofs of concept. ‘Failing’ fast leads to less waste and avoids prolonging investment in unsuccessful projects.

B. Business overview

Corporate Organisation

ING Group's segments are based on the internal reporting structure by lines of business. For more information see 'Item 5 Operating and Financial Review and Prospects".

Our Business

ING maintained its good commercial performance in 2018. Net core lending grew by €36.6 billion over the year, with net customer deposits growing by €19.3 million. It's our business to provide products and services that empower people and businesses to stay a step ahead. With digital disruption changing customer expectations we are looking for new ways to be relevant and stand out from the crowd. This also means offering services that go beyond banking.

We are transforming our organisation to create a differentiating experience for customers. One that is uniform and borderless and supported by one open and scalable platform. Our shared ING values and our commitment to the principle of integrity above all should always guide us in how we empower our customers and live up to our purpose and our responsibilities.

Our markets

ING's Retail business serves 38.4 million customers. The Wholesale Banking business serves corporate clients and financial institutions in more than 40 countries worldwide. ING also has stakes in the Bank of Beijing (China), TMB (Thailand) and Kotak Mahindra Bank (India).

In most of our retail markets we offer a full range of banking products and services, covering payments, savings, investments and secured and unsecured lending.

Wholesale Banking provides specialised lending, tailored corporate finance, debt and equity markets solutions, working capital, payments and cash management and trade and treasury services.

More information about our Wholesale Banking services is available at www.ingwb.com.

Market Leaders

Our Market Leaders are mature businesses in Belgium, the Netherlands and Luxembourg where we have strong positions in retail and wholesale banking.

In the first half of 2018, we successfully migrated 600,000 customers from Record Bank into ING in Belgium.

We are combining our strengths in Belgium and the Netherlands under the Unite be+nl programme and building an integrated banking platform. This is part of our strategy to enhance operational excellence, create greater cost-efficiency and provide a consistent, digital-first banking experience for our customers. For example, customers in Belgium will benefit from new functionalities on the ING mobile banking app. ING is also the first major bank in Belgium to offer same-day payments processing.

In the Netherlands we now have 4.3 million mobile app users, including 1.1 million new registered users in 2018. In Belgium, digital adoption is accelerating too, with a net increase of close to 285,000 new active mobile users (36 percent) to 1.07 million users. Some 55 million mobile payments were processed in Belgium in 2018, almost four times higher than in 2017. However, many customers still value face-to-face interactions and we have to balance their needs with our digital ambitions. To this end, we extended the opening hours of our branch network in Belgium.

One of the ways we are harmonising our products is by standardising the look and feel. For example, we have globally reduced more than 95 bank card designs to just eight. In 2018, we introduced the new-look cards in Belgium and the Netherlands. These have a 'clear and easy' look with a symbolic orange 'heart'. This follows the roll-out of the new cards in France in 2017, then Germany, Romania and Wholesale Banking. We will only issue new cards to customers when their existing ones expire to avoid unnecessary waste and costs as we replace all 15 million cards worldwide.

Tapping into the growth of a cashless society and rising demand for mobile payments, ING announced the merger in March 2018 of payments app company Payconiq with Bancontact to create the Bancontact Payconiq Company. Conceived by ING in 2014, Payconiq is a joint initiative with AXA Bank, Belfius, BNP Paribas Fortis, KBC, Rabobank and Volksbank. It allows users to pay for online and in-store purchases with their mobile phones, instantly and seamlessly connecting to their bank account. In 2018, 34 million payments were processed through either Bancontact or Payconiq, which is about twice as many as in 2017.

Around 50,000 merchants in Belgium are signed up to the service, which is available to consumers from all banks, not only the shareholders. In November 2018, the first Dutch retailer signed up, with more to follow as it is rolled out in the Netherlands. Testing has also started in Germany.

At the request of the Dutch Authority for Financial Markets banks compensated SME customers in the Netherlands who had been sold interest rate derivatives during a defined period. The compensation framework (UHK or Uniform Herstelkader) was determined by an independent committee set up by the Dutch Finance Minister in 2016. Execution was challenging, with extreme complexity, limited estimated tolerances and high compliance standards under stringent supervision. In 2018, all relevant ING customers received a compensation offer. Of these, 77 percent had been accepted by the end of the year and we foresee high acceptance of the rest. The estimated costs have been recognised in the profit and loss account as part of a provision.

ING actively reached out to customers in the Netherlands with 'interest' only mortgages to help them plan ahead for when their mortgages mature and the principal repayment is due. Customers can use the insights we provide to take timely action if needed to prevent affordability problems in the future. We believe this results in additional redemptions and product conversions and leads to de-risking of the mortgage portfolio.

In September 2018, ING reached a settlement agreement with the Dutch Public Prosecution Service related to previously disclosed investigations that found serious shortcomings in the execution of policies to prevent financial economic crime at ING in the Netherlands. You can find more information about this in the Regulation section.

Challengers Markets

Our Challengers markets are Australia, Austria, Czech Republic, France, Germany, Italy and Spain. Here we're aiming for a full bank relationship, digitally distributed through low-cost retail platforms like Welcome in Germany and Model Bank in several European markets. We are also using our direct banking experience to grow consumer and SME lending, and our strong savings franchises to fund the expansion of Wholesale Banking in these markets.

In 2018, we expanded our retail offering in the Czech Republic, which became the first country to go live on the Model Bank platform. We will start integrating customers in Spain, France and Italy onto the platform from 2019. To broaden our activities, we also started testing a mobile-only retail offering in the Philippines.

In Germany and Austria, we rebranded ING-DiBa as ING, in line with our ambition to be the same brand everywhere. And we introduced a new sales and service organisation in Austria to improve the customer experience. We will add mortgages to our Austrian retail offering in January 2019.

One of the ways we're empowering German customers is with real-time updates of transactions on their current account, which they receive via configurable push notifications in their banking app. Mortgages drew a substantial number of new customers to ING in Germany, pushing the volume of new mortgage business in Germany to record highs in 2018. As a result, ING in Germany announced a portfolio volume of mortgage loans of €73 billion for 2018, five percent more than the previous year.

In Spain, we expanded our partnership with El Corte Inglés, Europe's largest department store, to roll out our mobile payments app Twyp in all its supermarkets. This helped to raise Twyp's public visibility among consumers and take a key step forward in its objective to be available to as many people as possible. Customers from any bank can use Twyp to make payments and withdraw cash at 8,000 points of sale, doubling the app's reach in less than a year.

The popularity of the no-fee Orange Everyday transaction account among consumers in Australia led to record numbers of new account openings. In August, we extended this to teens with the launch of Orange Everyday Youth. Customers can also use our Everyday Round Up digital savings tool to help pay off their mortgage more quickly. And with the New Payments Platform (NPP), ING in Australia helped introduce instant payments to the market, in collaboration with NPP Australia and 12 other financial institutions. NPP is an innovative payments infrastructure that contributes to an easy, instant and seamless experience for our customers by providing real-time clearing and settlement, removing the usual two to three-day wait for transfers to go through.

Growth Markets

Our Growth Markets are businesses with a full range of retail and wholesale banking services in countries with expanding economies and strong growth potential. These include Poland, Romania and Turkey. Here we're investing to achieve sustainable franchises and will focus on digital leadership by converging to the direct-first model and prioritising innovation.

Lending in Poland and Romania showed significant growth in 2018. An attractive mortgage proposition in Poland, pre-approved online loans and simplified digital lending processes in both markets all contributed to this, along with the introduction in Romania of instant online loans in the Home'Bank app.

To stand out in the digitally advanced Polish market, where fintechs are gaining ground among tech-savvy consumers, we extended mobile payments to platforms such as Google Pay and Visa HCE. We also introduced an ING-specific keyboard for our Moje app to simplify mobile commerce and peer-to-peer transactions.

ING in Poland teamed up with fintech Twisto to introduce the country's first e-commerce payment gateway. It enables shoppers (not only ING customers, but from any bank) to buy online now and pay later, and get instant cashback if they return their purchases. Some 200 Polish merchants signed up for the pilot in April 2018, during which over 4,000 transactions were made. The Imoje payments gateway continues to grow by about 200 percent per month.

And to make foreign payments instant and seamless for Polish consumers, for example while travelling, we introduced a multi-currency card that allows users to pay for foreign purchases from several different currency accounts without incurring any commission fees. It has proven popular, with over 100,000 users so far.

For business customers in Poland and Romania, we launched ING Business, a new digital platform that makes banking clear and easy and accessible anytime, anywhere from any device. We also introduced Invoice Financing, a digital micro-factoring solution developed in-house at ING. It gives Polish SME customers control over which invoices they want to pre-finance and when.

And in line with our ambition to help create a low-carbon society we introduced an eco-offering for Polish entrepreneurs. The offering gives the loans we provide a responsible side because it encourages customers to take sustainable actions such as buying energy-efficient equipment for their businesses, for example, or insulating their buildings. See more about our ambition to align ING's overall loan portfolio with global climate goals in the 'Responsible Finance' section below.

Launched in June 2018, Turkey's Orange Extra (Turuncu Ekstra) programme was voted Most Innovative Product by Visa. At the end of 2018, it had 470,200 active customers, of which 183,000 were primary customers and 120,500 were spenders on the programme with Orange Extra cards. We also teamed up with several merchants in Turkey to offer customers vendor financing for online purchases via our mobile app. For example, they can get a loan for a new phone from the provider at the point of sale. And in another beyond banking collaboration we teamed up with online moving services platform Octovan to develop a tool that calculates the full cost of moving into a new home. The aim is to help the 1.5 million people in Turkey who move each year avoid financial surprises. Users can also apply for a loan to cover unforeseen expenses.

Wholesale Banking

Wholesale Banking is an important and integral contributor to ING's commercial performance. With a local presence in more than 40 countries, we provide corporate clients and financial institutions with advisory value propositions such as specialised lending, tailored corporate finance and debt and equity market solutions. We also serve their daily banking needs with payments and cash management, trade and treasury services.

In 2018, transaction services, payments and cash management and lending all grew and we expect this to continue as we support our corporate clients with their business needs and with becoming more sustainable.

We sharpened our strategy in 2018 to focus on what clients want – advice, data-driven insights and sector knowledge – and reorganised the way we work to deliver an experience that is borderless, instant, personal and consistent. This includes creating a new Europe, Middle East and Africa (EMEA) region and strengthening our international network by putting more resources (products and people) into Asia and the Americas. This, along with the introduction of a cross-border Strategic Products team fosters collaboration across the regions to give clients access to more products and services. We are also strengthening our core banking services such as Debt Capital Markets and Corporate Finance. And we introduced ING’s one Way of Working in our client service and delivery areas to support this new client-led approach.

In September 2018, as part of our commitment to fighting climate change, ING pledged to steer its entire lending portfolio towards the climate goals of the Paris Agreement.

Low volatility on stock and currency markets dampened appetite for hedging and impacted growth in our Financial Markets business. Mounting concerns about emerging markets currencies and the potential for defaults, and in particular the sharp fall of the Turkish currency, reverberated through lending markets. Pessimism about macro-economic developments such as the trade war between the US and China unsettled financial markets and dampened consumer confidence. The rising oil price caused inflation to increase, subduing real income growth.

Britain’s pending exit from the European Union and the potential impact on financial markets saw many international banks forced to make contingency plans to relocate their operations away from London. ING centralised its Financial Markets in London in 2016. We are in an ongoing dialogue with the European Central Bank and the Bank of England’s Prudential Regulation Authority to safeguard business continuity, keeping a close eye on the conditions under which the UK exits the EU.

Primary relationships

Earning the primary relationship is a strategic priority for ING as it leads to deeper relationships, greater customer satisfaction and ultimately customers choosing us for more of their banking needs.

In Retail Banking we define primary customers as those with multiple active ING products, of which one is a current account where they deposit a regular income such as a salary. For Wholesale Banking it means being the lender of choice and having an appropriate volume of flow products in Transaction Services, Working Capital Solutions and Financial Markets.

Customer numbers continued to grow in 2018 and we gained an additional one million customers during the year to reach 38.4 million. Customer numbers were positively influenced by the merger of Record Bank into ING in Belgium, where the primary customer number increased by 170,000 (14.6 percent). We refined our definitions for a number of customer categories in the Netherlands in the second quarter of 2018 to align the measurement of customers with uniform definitions across ING's countries. The number of primary retail customers overall increased 9.9 percent to 12.5 million, well on track to meet our 2020 target for 14 million. The biggest growth was in

Challengers markets, especially Australia (234,000) and Germany (233,000). Reasons include interest rate incentives on bundled savings and current accounts in Australia and selling more current accounts to existing savings customers in Germany.

Customer promise

ING promises to make banking clear and easy, to provide services anywhere, at any time and to keep getting better. We are driven by our purpose to empower people to stay a step ahead in life and in business. We do this by constantly innovating to deliver a differentiating customer experience that aims to be smart, personal and easy.

Across ING, digital channels account for more than 97 percent of contacts with retail customers, of which more than 72 percent are via a mobile phone, compared to 63 percent in 2017. Given the rise of digitalisation, and growing competition from disruptive newcomers to our sector, we want to do more than just live up to our Customer Promise. We want to surpass people's expectations.

We want to use our insights from over three billion customer interactions to offer a personalised and empowering experience, giving them even more reasons to interact with us. This is how we want to differentiate ING from other banks and become an essential part of people's digital lives.

We are striving to make things easy: an onboarding process that saves time from the start; a consistent mobile-first experience across all channels and devices; and instant loans in seven countries. In some of our markets it's even possible for customers to arrange travel insurance on-the-go by mobile phone. We are moving towards personal experiences based on data-driven insights, such as personalised money tips on our website for Belgian customers and personalised texts when German customers log in to do online banking. And we're equipping customers with smart data-driven and robot solutions. These include money management apps such as Orange Assistant in Turkey and Australia; Dutch forecasting tool 'Kijk Vooruit'; Smart saver in Australia and Czech Republic; and BudgetING in Czech Republic and Spain.

To provide the same customer experience everywhere we share best practices across the bank and are combining our strengths in our various retail markets and moving towards shared digital banking platforms.

One of the ways we measure our progress is the Net Promoter Score, which measures customer satisfaction and loyalty (whether they would recommend ING to others). The score is calculated as the difference between the percentage of promoters (who rate ING as 9 or 10 out of 10) and detractors (those scoring ING below a 6). Our aim is to achieve a number one NPS ranking in all 13 retail markets, with a 10-point lead over our main competitors. Based on a rolling average of our NPS scores in 2018, ING ranked number one in seven of our 13 retail markets and second in a further three.

In Wholesale Banking, the overall NPS score improved by 14 percent to 44.5 (on a scale of -100 to +100), outperforming the industry benchmark. The strongest growth was in the client segment where we have the deepest relationships. This suggests clients appreciate our new approach (see 'Client-led approach' below). Overall satisfaction rose to 8.4 from 8.3 across all products (Financial Markets, Transaction Services and Lending Services). We added a further 10 countries to the NPS programme in 2018, which is now running in 21 Wholesale Banking markets. In 2019, NPS will play an even more prominent role in gauging client satisfaction in Wholesale Banking, with clearly defined KPIs and a more active feedback process.

Client-led approach

To deepen our relationships with our Wholesale Banking clients we shifted our focus from individual products to more holistic solutions in the sectors and regions where they are active.

To support this new client-led approach we introduced a new organisational structure in 2018. It is designed to enable the revised WB strategy we introduced at the end of 2017, which puts clients at the heart of our business and uses data and technology to anticipate their needs. One of the key elements in the new set-up is the emphasis on our deep sector knowledge, which is embedded in our client coverage.

In early 2018, we implemented a uniform client segmentation framework that helps us tailor the services we offer clients through our daily banking and advisory value propositions. We also introduced 'commercial passports' that provide insight into what services we provide to each client, the regions where we serve them and who is involved (our virtual client team). In this way we can better support clients in their business activities with relevant advice, data-driven insights and customised, integrated solutions, ultimately saving them time, money and frustration.

This, along with our strategic review and new organisational structure all contributed to further simplifying and, digitalising the wholesale organisation. As part of our restructuring, we brought together various client trading activities scattered across Financial Markets into one team to improve the client experience and offer consistent products and one client approach everywhere.

When it comes to experience, clients want data-driven insights, sector knowledge and easy-to-use products and tools. We can use our analytics capabilities to tailor our advice for clients and enhance our daily banking services to better meet their business needs. These include payments and cash management, working capital solutions, trade finance, overdrafts and risk-mitigating services like derivatives. Our focus is on standardising these services across the network and offering proven and relevant solutions through clients' preferred channel, while also moving to open banking platforms.

Knowing our customers

Data is an important asset that helps us improve the customer experience and earn the strategically important primary relationship. We rely on data to understand what customers want and need. We use these insights to personalise our interactions with customers and empower them to make their own financial decisions. We also strive to protect customer data and privacy in line with the new European regulations (see 'Open banking' section below).

Our customer-facing platforms offer multiple touch points to interact with customers and collect data that we use to define customer journeys, for example when and where they choose to do their banking, the device they use and the services they prefer. We test these insights with feedback from customers to continuously improve our services. For example, we halved the number of fields clients have to fill out when opening an international account after they told us that that filling out separate forms for each country was too time-consuming.

One of the challenges of our international client base is that we may provide one client with many different products to different legal entities of the same company in different countries. This increases the complexity of coordinating due diligence in a consistent way without inconveniencing the client with duplicate requests for information.

It is vital that we know our customers from a regulatory and risk perspective. As a bank we have a responsibility to comply with the rules and regulations that secure the integrity of our own operations and that of the financial system. Not meeting these standards is unacceptable. It is sincerely regrettable that serious shortcomings were identified in customer due diligence to prevent financial economic crime at ING Netherlands in the period

investigated (2010-2016). This had a big impact in the form of the €775 million penalty. It was a failure to meet the standard of integrity that we set for ourselves – and more importantly – a failure to live up to the expectations of our customers and society.

We are committed to conducting our business with integrity and are taking robust and structural measures to restore trust in ING. These measures aim to strengthen the way we manage compliance risks and to improve compliance risk management across the bank.

Platform thinking

Banks are operating in a rapidly changing environment marked by new competitors, new customer expectations, increased regulation and higher capital requirements. At the same time, persistent low interest rates put pressure on our savings business model. We therefore have to find new ways to be relevant to our customers. Open banking offers opportunities here. By partnering with others or developing our own digital platforms, we can offer customers new and complementary services that go beyond banking – and create new revenue streams for ING.

For example, in February, ING acquired a 90 percent stake in Dutch digital real estate platform Makelaarsland, which connects home buyers and sellers directly, without the need for a real-estate broker. We teamed up with insurer AXA in June to offer customers personalised insurance services in a clear and easy way via the ING mobile app. And we announced partnerships with SME lending platforms FinCompare in Germany and Funding Options in the Netherlands, empowering small and medium-sized businesses with more financing options than a conventional bank loan.

Also in June, we announced the expansion of our open banking platform Yolt to France and Italy. Yolt is a smart money app that helps users to manage their personal finances with a one-stop overview of their accounts at most major banks. It was launched in the UK in June 2017 and now has more than 500,000 registered users.

Similarly, for our Wholesale Banking clients the Bank Mendes Gans (BMG) platform aggregates all the business companies do with different banks, not just ING. In 2018, we added new functionalities to the platform allowing clients to complete the KYC onboarding process online and arrange their own automated transfers between accounts to better optimise their cash flow.

On the Wholesale Banking side we invested €7.5 million in Cobase, an international multibank platform that allows corporate clients to manage multiple bank accounts and arrange payments, cash management and treasury services in one place. Since its commercial launch it has accelerated new clients and bank connections, attracting more than 10 beta clients in its first four months, adding to its paying client base. Cobase was included in the CB Insights 2018 Fintech 250 list of the most promising fintech companies. And in January, we acquired 75 percent of international payments platform Payvision, which facilitates more than 80 payment methods in 150 currencies, giving corporate customers more options for making international payments. This is an important step towards becoming the preferred platform for business customers and strengthens ING's digital payments business, especially in e-commerce.

In addition, we are teaming up with fintechs to develop open-source blockchain-based platforms that will disrupt banking as we know it (see Blockchain section below).

Open banking

In January 2018, the second Payment Services Directive (PSD2) came into effect in Europe, opening up the financial services space to non-banks. It gives consumers and businesses more choice in the service provider they use to pay bills, online purchases or analyse their spending. They don't have to use their own bank anymore – but their bank is obliged to give these third parties access to their customers' accounts to facilitate the payments.

At the same time, banks have a duty of care – and a legal obligation – to protect their customers' privacy under the General Data Protection Regulation (GDPR), which came into force in Europe May. In 2018, ING updated its privacy statement globally, empowering customers to take control of their own data in line with GDPR. It lets people choose what information they share and with whom. Although GDPR should have created a level playing field across the EU, we've noticed this is not necessarily the case. Local interpretations of the laws in different countries have made it more challenging to apply one global policy, as do their differing views

Improving the customer experience

Throughout 2018 we continued to empower our customers with better solutions and we innovated for the future. To speed up the path to market for disruptive ideas that will benefit clients we also partner with others (see the 'Innovation and transformation' chapter).

Improving the way retail customers contact us, we introduced Contact Centre 2.0. This is a cloud-based platform that can switch between channels to give customers the same experience whatever way they get in touch. It provides support by video chat, WhatsApp and telephone. Launched in the Netherlands, Belgium and the Czech Republic in 2018, it will be rolled out in a further 12 countries by the end of 2020.

ING Global Index Portfolios, is a new low-cost and easy-to-use investment product that gives customers an alternative to savings accounts. Developed jointly in the Netherlands, Austria, Germany, Belgium and Luxembourg, it expands our retail offering in these markets.

To help Wholesale Banking clients stay a step ahead we implemented our new Strategic Proposition Opportunity Tool (SPOT) in June. Using real-time data and self-adjusting algorithms it identifies potential business opportunities for clients in areas such as debt and equity capital markets, mergers and acquisitions, capital structuring and working capital solutions. With these data-driven insights we can enhance our advisory value proposition.

Another data-driven tool Katana Lens, which we introduced in October 2018. It uses predictive analytics to help bond investors find and compare interesting trades. It was co-created with Dutch pension fund PGGM and is the second Katana tool developed by ING. The first was for bond traders. Initial results show faster pricing decisions for 90 percent of trades and a 25 percent reduction in trading costs.

And we partnered with Italian fintech Axyon to bring the power of artificial intelligence to the syndicated loans market. The SynFinance platform uses an algorithm to predict investor participation in a pending syndicated loan.

Another service for Wholesale Banking clients is Covenant Monitoring, which uses scanning and natural language processing to track loan performance. This has been introduced globally across Wholesale Banking.

To help buildings become more energy-efficient, ING Real Estate Finance introduced the ING Energy Robot in June. Using algorithms linked to a 'smart' energy meter, it can detect when energy is being wasted in a building (e.g. lights left on after hours) and identify up to 15 percent of energy-saving opportunities. With some 30,000 buildings in our Dutch Real Estate Finance portfolio, this could save up to €30 million in energy costs and 92,000 tonnes of CO2 emissions annually in the Netherlands alone. The ING Energy Robot is the next step following on from the digital online sustainability scan tool launched in 2016.

Blockchain

Distributed ledger technologies are disrupting the financial industry, making traditional paper-based processes more efficient and secure. ING contributes to the evolution of this nascent technology both by working with partners like the R3 consortium and Enterprise Ethereum Alliance and through our own in-house research. This approach led to a number of blockchain breakthroughs in 2018.

These include one of the first legally binding securities lending transactions on a blockchain with fintech HQLAx. HQLAx used R3's Corda open-source blockchain platform to swap baskets of securities worth €25 million between ING and Credit Suisse. This solution enables financial institutions to manage their buffers of high-quality liquid assets more efficiently, for example for regulatory purposes, and helps market participants redistribute liquidity more efficiently.

Building on the success of ING's Easy Trading Connect platform, which demonstrated the potential of blockchain to revolutionise energy and soft commodities trading, is komgo. Launched in Geneva in 2018, it digitalises the processes involved in the financing of commodity trades, such as know your customer and letters of credit, making them simpler and more trustworthy. Originating in ING Labs, we are one of 15 partners involved in its development.

In November, ING and HSBC conducted a second successful live trade finance transaction on the Voltron blockchain platform, which is built on R3's Corda platform. The transaction covered a polymers shipment from India to Peru and was completed in just 24 hours compared to the standard five to 10 days. It follows the pilot in May with agrifood trading giant Cargill.

In October, we open-sourced our zero-knowledge set membership (ZKSM) solution to tackle the challenge of privacy on the blockchain. ZKSM allows alphanumeric data to be shared without identifying personal details. So for example, it can validate that someone lives in a European Union country without revealing which one, or that a new mortgage applicant's salary falls within a required range without revealing the exact figure.

To close the year, ING completed a live commercial paper transaction on a new euro debt application, built on R3's Corda platform. We participated as the dealer and escrow agent in the issuance of €100,000 notional with a one-day maturity, together with Natixis, Rabobank and Commerzbank.

Responsible finance

ING is committed to contributing to a low-carbon and self-reliant society, both through our own efforts and by helping our clients to be more sustainable. As a bank, we make the most impact through our financing, via the loans we provide to clients. This is why we announced in September that we are steering our €600 billion lending portfolio towards meeting the well-below two-degree goal of the Paris Climate Agreement. Our strategy to get there is called the Terra approach.

To help us accurately measure our portfolio we co-developed a measurement approach with the 2° Investing Initiative, a global think tank developing climate metrics in financial markets. It looks at the technology shift that's needed across certain sectors to slow global warming and then measures this against the actual technology clients are using – or plan on using in the future. This is where financing comes in – and ING can have an impact. The measurement approach uses science-based scenarios developed by independent organisations like the International Energy Agency to tell us what needs to shift, by how much and by when.

This approach is easier for clients too, as they won't be required to provide any additional data themselves – we draw client data from global databases that track public and private companies worldwide in the sectors with the biggest influence on greenhouse gas emissions. These include energy (oil & gas, renewables and conventional power), automotive, shipping & aviation, steel, cement, residential homes (mortgages) and commercial real estate.

Each sector requires a custom approach. For some sectors this still needs to be refined further. ING is working on this. We're also working on bringing other banks on board in the belief that an industry-wide standard will increase transparency and be more effective. In December 2018, the global banks BBVA, BNP Paribas, Société Générale, and Standard Chartered joined ING in committing to align their loan portfolios with global climate goals using a similar approach.

Fighting climate change

The Terra approach is complemented by the other ways we work to combat climate change. We have committed to reducing our thermal coal exposure to close to zero by 2025 and aim to double our Climate Finance portfolio by 2022 compared to 2017. We'll do this by funding projects that advance renewable energy, energy efficiency and the circular economy. We've also committed to doubling Social Impact financing for projects that lead to affordable housing, or improved infrastructure, for example, and to double lending to environmental, social and governance (ESG) industry leaders, all by 2022 compared to 2017.

We were well on track in 2018. Climate Finance rose 11 percent to €16.5 billion, Social Impact financing was 73% higher at €774 million and lending to ESG industry leaders grew by 29% to €7.1 billion.

In 2018, we financed the first offshore wind farm in Asia, which will help Taiwan reduce its reliance on coal and nuclear power, and we helped refinance Italy's largest solar panels operator. In Austria, ING was the only bank invited to advise the Austrian government on developing a more active green-finance market. And in November, we issued ING's second-ever own green bonds, raising €2.6 billion to fund a portfolio of green loans for renewable energy and green buildings.

That said, we do still finance clients in the oil and gas industry. ING has already taken a big step in committing to zero exposure to thermal coal – the most polluting fossil fuel. But the world still relies on fossil fuels for power because as yet there's not enough renewable energy being generated to meet the global demand. Nor is there an affordable and efficient way for storing it. This is both a challenge to find the right balance between stopping financing for certain things and increasing finance to others, and an opportunity for us to enter into strategic dialogues with clients to influence change. We talk about the challenges they face and help them identify ways to address these.

Deepening our commitment to responsible finance, we introduced a made-to-measure sustainability improvement loan. It links the interest rate of the loan directly to the borrower's own sustainability targets rather than to an external rating (as was the case with the sustainable Philips loan we pioneered in 2017) and considers their overall ESG (environmental, social and governance) performance. We issued several of these loans in 2018, including to recycling company Renewi, nutrition and diversified chemicals company Royal DSM and real-estate company Gecina. The Gecina transaction was named bank loan of the year in 2018 by Property Investor Europe, the first time it's been awarded to a sustainable loan in the Real Estate Finance sector.

To help young companies active in areas such as the energy transition, circular economy and water, ING launched Sustainable Investments in January 2018. With this we committed €100 million to support scale-ups that don't yet fulfil the criteria for all-in senior financing. The first recipients include Exasun, maker of solar roof tiles, and Black Bear

Carbon, which recycles old tyres into smartphone covers and pen ink.

And, as almost half of our loan book consists of mortgages, we announced that we are taking action to make our mortgage portfolio energy-positive. This means the homes in this portfolio will collectively produce more energy than they consume. To this end we are developing retail products, tools and services to help homeowners make their houses more sustainable. As houses generally account for about 20 percent of CO2 emissions, we believe this could have a meaningful impact in the fight against climate change. At the same time it will help our customers to lower their CO2 footprint and energy bill. We will start in our three biggest markets in the Netherlands, Belgium and Germany in early 2019. While we already provide 'green' mortgages in Germany through development bank KfW, customers can use the new products to finance solar panels, for example, or insulate their homes. To help raise awareness, consumers in the Netherlands can check the energy profile of their homes on our website and see the options and financing available to improve this.

Alongside the growing number of green loans and bonds, ING marked a significant first in November 2018 with Asia's first social-covered bond. The proceeds of the €500 million bond will be used by the Korea Housing Finance Corporation to extend accessibility to affordable housing in South Korea.

To take sustainable finance further in the business we have set up regional Sustainable Finance teams in the Americas and Asia to support our clients in these regions. In October, ING hosted two sector-specific sustainability panels in New York. The first addressed the 'greening' of America's data centres with representatives from several major tech companies. The second was focused on the aviation industry.

Sustainable assets under management

We can help our customers accelerate the transition to a sustainable world through sustainable investing. ING provides investment solutions that have a positive impact on society and the environment.

In 2018, ING signed up to the United Nations Principles for Responsible Investment, committing us to incorporate environmental, social and corporate governance issues into our investment decisions, policies and processes.

ING offers responsible investment solutions to clients in Belgium, Luxembourg, Germany and the Netherlands. Sustainable assets under management (SAuM) can be dedicated portfolios, structured products or investment funds, and cover all asset classes. In 2018, we developed one overall ING approach and strategy covering dedicated portfolios, structured products and investment funds in all asset classes.

We see a growing demand and opportunity for sustainable investment in the market and have an ambition to grow our sustainable assets under management (SAuM, which were €6.3 billion at the end of 2018 (2017: EUR 4.8 billion.) This represents five percent of ING's total assets under management.

Self-reliant society

We believe empowering people to become financially self-reliant contributes to a healthy economy and helps drive social progress. This means equipping people to make financial decisions now and in the future.

In addition to clear and easy products and services, it's about providing people with the right information and tools to be financially self-sufficient. This could be financial loans, such as microfinance for SME clients in Turkey, as well as education and research. In line with ING's own digital ambitions, ING in Turkey extended its financial literacy programme to promote science and maths at school, encouraging youngsters to innovate and become digitally savvy.

Local empowerment initiatives include the Schuldenlab in the Netherlands, which brings together government, business and NGOs to address problematic debt, a growing social problem affecting 1.4 million Dutch households. ING in the Netherlands also supports the Jongeren Persectief Fonds (Youth Perspective Fund) to help young people get out of debt, and Hack your Future, which trains refugees as software developers. Through websites such as Italy's VoceArancio and CommunityArancio (over 23,000 members), and Aktion pro Aktie in Germany, we provide tools to help customers make informed decisions, while in Belgium we offer tools such as an audible card reader help to make banking accessible to everyone.

ING's YouTube channel became the fifth brand in Poland to reach more than 100 million views. Its latest series 'Straight on the money', in cooperation with Google, provides straightforward answers to the money questions Polish people most commonly search for online. The videos were watched 1.6 million times in the first five months and helped the channel to attract over 100,000 subscribers.

During Global Money Week in March, colleagues around the world volunteered to return to the classroom to teach children about money matters. A social media campaign in Belgium and the Netherlands in 2018 sought to engage youth to think about their financial future, while in Australia the Orange Everyday Youth account empowers teens to take control of their money.

As a result of our financial empowerment interactions, 25 million people (66 percent of our customer base) felt financially empowered in 2018. In 2017, this was 25.4 million or 69 percent. Our ambition for 2022 is to for 32 million customers to feel financially empowered by ING (changed from 34 million due to changes in our customer base and updated forecast figures).

In a broader social context, ING again renewed its partnership with UNICEF's Power for Youth to equip young adults in less-developed countries with financial knowledge and 21st century skills to build a brighter future. The partnership reached 427,000 young people in 2018. To further empower youth for a better future, ING joined the United Nation's Generation Unlimited partnership in 2018. Its aim is for every young person (and especially girls) to be in education, training or employment by 2030. The partnership provides mentorship and funding to put young people at the forefront of change. ING CEO Ralph Hamers is a member of the board of Generation Unlimited.

Competition

ING is a global financial institution with a strong European base, offering retail and wholesale banking services to customers around the globe. The purpose of ING is empowering people to stay a step ahead in life and in business.

ING's Retail business serves 38.4 million customers. The Wholesale Banking business serves corporate clients and financial institutions in more than 40 countries worldwide. ING also has stakes in the Bank of Beijing (China), TMB (Thailand) and Kotak Mahindra Bank (India).

In most of our retail markets we offer a full range of banking products and services, covering payments, savings, investments and secured and unsecured lending. Wholesale Banking provides specialised lending, tailored corporate finance, debt and equity markets solutions, working capital, payments and cash management and trade and treasury services.

Our Market Leaders are mature businesses in Belgium, the Netherlands and Luxembourg where we have strong positions in retail and wholesale banking.

Our Challengers markets are Australia, Austria, Czech Republic, France, Germany, Italy and Spain. Here we're aiming for a full bank relationship, digitally distributed through low-cost retail platforms like Welcome in Germany and Model Bank in several European markets. We are also using our direct banking experience to grow consumer and SME lending, and our strong savings franchises to fund the expansion of Wholesale Banking in these markets.

Our Growth Markets are businesses with a full range of retail and wholesale banking services in countries with expanding economies and strong growth potential. These include Poland, Romania and Turkey and our stakes in Asia. Here we're investing to achieve sustainable franchises and will focus on digital leadership by converging to the direct-first model and prioritising innovation.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide.

Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors. The Netherlands is our largest market. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank.

Competition is also coming from new entrants to the financial services market with new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants often rely on new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks.

Fintechs are leveraging easy mobile access, transparency and low cost to compete for lucrative parts of banks' value chain in areas like payments and instant lending. But the biggest challenge is coming from the Big Tech platforms that are setting the digital standard in terms of customer experience and where people spend more and more of their time when they're online – to shop, to socialise, for news and entertainment and for a whole range of other needs.

To compete with Big Tech and other platforms, banks will need to become platforms themselves. They will need to offer the same personal, instant, relevant and seamless experience. They will need to be open to become go-to platforms that keep people coming back, offering third-party products and beyond banking services. And they will need to become experts in managing and analysing customer data in order to know the needs and preferences of their customers, create new offers and improve the customer experience.

The Big Tech platforms are not only disrupting banking with their customer experience. They are now directly competing with banks, as in the case of Apple Pay, which is growing rapidly and has expanded to more than 20 countries, WeChat which is lending to consumers and Alibaba's Ant Financial which now has the world's biggest money market fund by assets. And with tech platforms now leading the rankings of the world's largest companies by market capitalization, they have the size and scale to be formidable competitors.

Developments in technology have also accelerated the use of new business models. Examples are new business models in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. A significant competitive development is the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, especially with respect to payment services and products, and the introduction of disruptive technology.

An important example of this is the newly enacted PSD2 European directive opening the payments market to non-bank entrants. This is causing banks to face an unlevel playing field when competing with new, mainly less regulated, market entrants in a lucrative area that in the past was dominated by banks and other financial services providers.

Regulation and Supervision

The banking and broker-dealer businesses of ING are subject to detailed and comprehensive supervision in all of the jurisdictions in which ING conducts business. As discussed under "Item 3. Key Information — Risk Factors", as a large multinational financial institution we are subject to reputational and other risks in connection with regulatory and compliance matters involving these countries.

European Regulatory framework

In November 2014 the European Central Bank (ECB) assumed responsibility for a significant part of the prudential supervision of euro area banking groups in the Eurozone, including ING Group and ING Bank. Now that the ECB assumed responsibility for the supervision of the banking groups in the Eurozone, it has become ING Group's and ING Bank's main supervisor. The ECB is amongst others responsible for tasks such as market access, compliance with capital and liquidity requirements and governance arrangements. National regulators remain responsible for supervision of tasks that have not been transferred to the ECB such as financial crime and payment supervision. See also the paragraph on 'Single Supervisory Mechanism'.

Dutch Regulatory Framework

The Dutch regulatory system for financial supervision consists of prudential supervision – monitoring the soundness of financial institutions and the financial sector, and conduct-of-business supervision – regulating institutions' conduct in the markets. As far as prudential supervision has not been transferred to the ECB, it is exercised by the Dutch Central Bank (De Nederlandsche Bank or "DNB"), while conduct-of-business supervision is performed by the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten or "AFM"). DNB is in the lead with regard to macroprudential supervision. However, the ECB can set higher macroprudential obligations than proposed by DNB.

Global Regulatory Environment

There is a variety of proposals for laws and regulations that could impact ING globally, in particular those made by the Financial Stability Board and the Basel Committee on Banking Supervision at the transnational level, amendments to Dodd-Frank in the United States and an expanding series of supranational directives and national legislation in the European Union (see "Item 3. Key Information — Risk Factors — We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability). The aggregated impact and possible interaction of all of these proposals are hard to determine, and it may be difficult to reconcile them where they are not aligned. The financial industry has also taken initiatives by means of guidelines and self-regulatory initiatives.

Examples of these initiatives are the Dutch Banking Code as established by the Dutch Bankers' Association, which details a set of principles on corporate governance, risk management, audit and remuneration that Dutch banks have to apply on a comply-or-explain basis. Elements of these initiatives may subsequently be incorporated into legislation, as was the case with the "Banker's oath" and remuneration principles from the Dutch Banking Code. The aforementioned "Banker's oath" is a mandatory oath for all employees in the Netherlands of banks licensed in the Netherlands, which the Dutch government has introduced, effective per 1 April 2015. In this oath, the employees of the relevant ING entities declare that they (i) will perform their duties with integrity and care, (ii) will carefully consider all the interests involved in the company, i.e. those of the customers, the shareholders, the employees and the society in which the company operates, (iii) in that consideration, will give paramount importance to the client's interests and inform the customer to the best of their ability, (iv) will comply with the laws, regulations and codes of conduct applicable to them, (v) will observe secrecy in respect of matters entrusted to them, (vi) will not abuse their knowledge, (vii) will act in an open and assessable manner and know their responsibility towards society and (viii) will endeavour to maintain and promote confidence in the financial sector. To enforce the oath, non-compliance can be sanctioned by a special disciplinary court. Moreover, if Executive or Supervisory Board members break the oath, the supervisory authority (ECB/DNB/AFM) can decide to reassess their suitability.

As mentioned above, a significant change has been made to the supervisory structure within the Eurozone and in November 2014 the Single Supervisory Mechanism ("SSM") took effect, a mechanism composed of national competent authorities and the ECB with the ECB assuming direct responsibility for a significant part of the prudential supervision of ING Bank and its holding company ING Group. ING expects to benefit from the harmonization of supervision resulting from the SSM but at the same time does not expect such harmonization to be fully in place in the short to mid-term.

Another significant change in the regulatory environment is the setting up of the Single Resolution Mechanism ("SRM"), which comprises the Single Resolution Board ("SRB") and the national resolution authorities and is fully responsible for the resolution of banks within the Eurozone as of 1 January 2016. ING has been engaging already with the Dutch national resolution authorities and the SRB for a few years with the aim to draw up a resolution plan for ING. ING will continue to work with the resolution authorities to set up a resolution plan for ING. The rules underpinning the SRM could have a significant impact on business models and capital structure of financial groups but at this stage it is not clear what the impact on ING's banking operations will be.

As a third pillar to the Banking Union, the EU has harmonized regulations for Deposit Guarantee Schemes (DGS). Main elements are the creation of ex-ante funded DGS funds, financed by risk-weighted contributions from banks. As a next step, the EU is discussing a pan-European (or pan-banking union) DGS (the European Deposit Insurance Scheme (EDIS)), (partly) replacing or complementing national compensation schemes. The progress on the EDIS proposal is slower than expected; this proposal as well as certain accompanying risk reduction measures are still being discussed in the European Parliament and in the Council.

Dodd-Frank Act

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which became law on 21 July 2010, represented a significant overhaul in the regulation of U.S. financial institutions and markets. The primary impact on ING is through the establishment of a regulatory regime for the off-exchange derivatives market, pursuant to Title VII of the Dodd-Frank Act.

Among other things, the Dodd-Frank Act and regulations enacted thereunder required swap dealers to register with the Commodity Futures Trading Commission (the "CFTC", the primary swaps regulator in the U.S.) as 'swap dealers' and be subject to CFTC regulation and oversight. The ING subsidiary, ING Capital Markets LLC, is registered as a swap dealer. As a registered entity, it is subject to business conduct, record-keeping and reporting requirements, as well as capital and margin requirements. In addition to the obligations imposed on registrants, such as swap dealers, reporting, clearing, and on-facility trading requirements have been imposed for much of the off-exchange derivatives market. It is possible that registration, execution, clearing, margin and compliance requirements will increase the costs of and restrict participation in the derivative markets. These rules (as well as further regulations, some of which are not yet final) could therefore restrict trading activity, reducing trading opportunities and market liquidity, potentially increasing the cost of hedging transactions and the volatility of the relevant markets. This could adversely affect the business of ING in these markets.

The Dodd-Frank Act also impacts U.S. banks and non-U.S. banks with branches or agencies in the United States, primarily through the Volcker Rule and the enhanced prudential standards of Section 165 of the Dodd-Frank Act. Because ING Bank does not have a U.S. banking presence, these provisions do not currently apply to ING.

The Dodd-Frank Act also created a new agency, the Financial Stability Oversight Council (“FSOC”), an inter-agency body that is responsible for monitoring the activities of the U.S. financial system, designating systemically significant financial services firms and recommending a framework for substantially increased regulation of such firms, including systemically important non-bank financial companies that could consist of securities firms, insurance companies and other providers of financial services, including non-U.S. companies. ING has not been designated a systemically significant non-bank financial company by FSOC and such a designation currently is unlikely.

Although U.S. legislative and regulatory bodies have taken initial steps over the past year to tailor the regulatory regime created under Dodd-Frank, Dodd-Frank continues to impose significant requirements on us, some of which may have a material impact on our operations and results, as discussed further under “Item 3. Key Information — Risk Factors—We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability”.

Basel III and European Union Standards as currently applied by ING Bank

DNB, our home country supervisor until the ECB took over that position in November 2014, has given ING permission to use the most sophisticated approaches for solvency reporting under the Financial Supervision Act, the Dutch legislation reflecting the Basel II and Basel III Frameworks. DNB has shared information with host regulators of relevant jurisdictions to come to a joint decision. In all jurisdictions where the bank operates through a separate legal entity, ING must meet local implementation of Basel requirements as well. ING uses the Advanced IRB Approach for credit risk, the Internal Model Approach for its trading book exposures and the Advanced Measurement Approach for operational risk. As of 2009, a Basel I floor of 80% of Basel I RWA has been applicable. A small number of portfolios are still reported under the Standardized Approach.

In December 2010, the Basel Committee on Banking Supervision announced higher global minimum capital standards for banks, and has introduced a new global liquidity standard and a new leverage ratio was phased in over 2014-2018. The Committee's package of reforms, collectively referred to as the “Basel III” rules, will , among other requirements, increases the amount of common equity required to be held by subject banking institutions, prescribes the amount of liquid assets and the long term funding a subject banking institution must hold at any given moment, and limit leverage. Banks are required to hold a “capital conservation buffer” to withstand future periods of stress such that the required common equity Tier 1 ratio, when the buffer is fully phased in on 1 January 2019, will rise to 7%. Basel III also introduces a “countercyclical buffer” as an extension of the capital conservation buffer, which permits national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III strengthens the definition of capital that will have the effect of gradually disqualifying many hybrid securities during the years 2013-2022, including the hybrids that were issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements (for example, for credit value adjustments (“CVAs”) and illiquid collateral) as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and Financial Stability Board (“FSB”) published measures that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, “systemically important financial institutions” (“SIFIs”), in addition to the Basel III requirements otherwise applicable to most financial institutions. The implementation of these measures began in 2012 and full implementation is targeted for 2019. ING Bank has been designated by the Basel Committee and FSB as a so-called “Global Systemically Important Banks ” (“G-SIBs”), since 2011, and by DNB and the Dutch Ministry of Finance as a “domestic SIB” (“D-SIB”) since 2011.

For European banks these Basel III requirements have been implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive ("CRD IV"). The Dutch CRD IV Implementation Act has led to significant changes in the Dutch prudential law provisions, most notably with regard to higher capital and liquidity requirements for all banks. The CRD IV regime entered into effect in August 2014 in the Netherlands, but not all requirements are to be implemented all at once. Having started in 2014, the requirements have been gradually tightened, mostly before 2019, until the Basel III migration process will be completed in 2022. While the full impact of the new Basel III rules, and any additional requirements for G-SIBs if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which such regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond, we expect these rules to have a material impact on ING's operations and financial condition and may require the Group to seek additional capital. DNB requires the largest Dutch banks, including ING Group, to build up a 3% Systemic Risk Buffer during 2016-2019 in addition to the capital conservation buffer and the countercyclical buffer described above, but this buffer then includes both the G-SIB and D-SIB buffers mentioned above.

In November 2016, the EC proposed certain reforms to further strengthen the resilience and resolvability of EU banks, aimed at capital requirements on the one hand (the CRR and CRD IV) and recovery and resolution on the other (the BRRD and SRMR). In December 2018, the European Parliament and the Council came to a political agreement on this 'EU banking reform package', but further technical talks to finalise the text are yet to be held before a final agreement can be reached.

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Regulatory Developments

The Group's IFRS 9 implementation was completed in the first quarter of 2018. The impact on ING Group's CET1 ratio, taking into account the existing regulatory provision shortfall and before any transition relief, was, a reduction of 20 bps. This was mainly caused by the change in the classification and measurement of a portion of the portfolio invested in liquid assets.

As of 1 January 2022, the first stage of Basel IV (revised Internal Rating-Based Approach) will come into effect. Based on the current estimates, without management actions this is expected to potentially increase RWA by roughly 15-18% on a fully loaded basis, of which around 80% is expected as per implementation date.

ING will strive to meet a post Basel IV CET1 ratio ambition of around 13.5% and, as before, it will continue to execute its strategy for its clients and to aim at delivering growth at good returns.

Requirement and guidance for 2018 Pillar 2 requirements

One specific element of Basel III is the possible restriction on distributable items. This limits the ability of the bank to pay dividends, hybrid coupons and/or management remuneration if its capital drops below the sum of its Pillar 1, Pillar 2 and combined buffer requirements, often referred to as the Maximum Distributable Amount (MDA) trigger. The Pillar 2 requirement in the supervisory review and evaluation process (SREP) 2018 decision is split into:

- Pillar 2 requirement (P2R), which is binding and therefore breaches have direct legal consequences.

- Pillar 2 guidance (P2G), which is not legally binding and therefore a breach does not automatically trigger regulatory action.

By providing guidelines regarding the SREP, the European Banking Association (EBA) gives further direction for the internal capital adequacy assessment process (ICAAP) and enhancement of the capital management framework.

Bank recovery and resolution directive

Since its adoption by the European Parliament in 2014, the Bank recovery and resolution directive (BRRD) has become effective in all EU countries after transposition into national law, including in the Netherlands. The BRRD aims to safeguard financial stability and minimise the use of public funds in case banks face financial distress or fail to comply with the BRRD. Banks across the EU need to have recovery plans in place and need to cooperate with resolution authorities to determine, and make feasible, the preferred resolution strategy.

ING has had a recovery plan in place since 2012. The plan includes information on crisis governance, recovery indicators, recovery options, and operational stability and communication measures. The plan enhances the bank’s readiness and decisiveness in case of a financial crisis. The plan is updated annually to make sure it stays fit for purpose. The completeness, quality and credibility of the updated plan is assessed each year by ING’s regulators.

The Single Resolution Board (SRB) confirmed to ING in 2017 that a single-point-of-entry (SPE) strategy is ING’s preferred resolution strategy, with ING Groep N.V. as the resolution entity.

In 2018, ING Group received a formal notification from De Nederlandsche Bank (DNB) of its binding minimum requirement for own funds and eligible liabilities (MREL). The MREL requirement has been established to ensure that banks in the European Union have sufficient own funds and eligible liabilities to absorb losses in the case of potential bank failure. The MREL requirement is set for ING Group at a consolidated level, as determined by the Single Resolution Board (SRB). This MREL requirement has been set at 10.89% of total liabilities and own funds.

ING has been replacing, and will continue to replace, maturing ING Bank N.V. debt with ING Groep N.V. instruments. In order to build up our MREL capacity, ING Groep N.V. issued multiple transactions (excluding above mentioned Tier 2 issuances) for a total amount of €11.5 billion in 2018. These transactions will not only allow us to support business growth, but will also help to meet future MREL and TLAC requirements with ING Groep N.V. instruments only.

The total loss absorbing capacity (TLAC) requirement as set by the Financial Stability Board is in the process of being implemented in EU regulations through amendments to the Capital Requirements Regulations. Once implemented in EU regulation, as a global systemically important institution (G-SII) ING is expected to meet the TLAC requirement alongside the other minimum regulatory requirements set out in EU regulation. The TLAC requirement is expected to consist of 16% of the resolution group’s risk weighted assets (TLAC RWA Minimum) and 6% of the leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum), excluding buffer requirements, as of 1 January

2019. From 1 January 2022 TLAC is required to be at least 18% of the resolution group's risk weighted assets and 6.75% of the leverage ratio denominator.

Stress testing

Stress testing is an integral component of our risk and capital management framework. It allows us to (i) assess potential vulnerabilities in our businesses, business model, and/or portfolios; (ii) understand the sensitivities of the core assumptions in our strategic and capital plans; and (iii) improve decision making through balancing risk and return.

In addition to running internal stress test scenarios to reflect the outcomes of the annual risk assessment, ING also participates in regulatory stress test exercises. ING participated in the 2018 EU-wide stress test conducted by the EBA in cooperation with the European Central Bank (ECB), the Dutch central bank (DNB), the European Commission and the European Systemic Risk Board (ESRB). The adverse stress test scenario was developed by the ECB and covers a three-year time horizon (2018-2020). The stress test was carried out applying a static balance sheet assumption as of December 2017, and therefore does not take into account current or future business strategies and management actions. The results also reflect the impact of IFRS 9 for determining loan loss provisions in adverse circumstances.

The results of the EBA stress test reaffirmed the resilience of our business model and the strength of ING's capital base. Our commitment to maintain a robust, fully-loaded Group common equity Tier 1 (CET1) ratio in excess of prevailing requirements remain. Under the hypothetical baseline scenario and EBA's methodological instructions, ING Group would have a fully loaded CET1 of 13.99% in 2020. Under the hypothetical adverse scenario and EBA's methodological instructions, ING Group would have a fully loaded CET1 ratio of 10.70% in 2020 without management actions.

United States

ING Bank has a limited direct presence in the United States through the ING Bank Representative Offices in New York and Dallas, Texas. Although the offices' activities are strictly limited to essentially that of a marketing agent of bank products and services and a facilitator (i.e. the offices may not take deposits or execute any transactions), the offices are subject to the regulation of the State of New York Department of Financial Services and the Texas Department of Banking, as well as the Federal Reserve. ING Bank also has a subsidiary in the United States, ING Financial Holdings Corporation, which through several operating subsidiaries (one of which is registered with the U.S. Commodity Futures Trading Commission as a swap dealer and another of which is registered with the U.S. Securities and Exchange Commission as a securities broker-dealer) offers various financial products, including lending, and financial markets products. These entities do not accept deposits in the United States on their own behalf or on behalf of ING Bank N.V.

Anti-Money Laundering Initiatives and countries subject to sanctions

Combating money laundering and terrorist financing has been and will be a major focus of governmental policy towards financial institutions. Applicable bank regulatory authorities are imposing, and industry groups and participants are adopting, heightened standards, and law enforcement authorities have been taking a more active role in prosecuting potential violations.

The fifth Anti-Money Laundering Directive (5th AMLD) was adopted by the EU Parliament on 19 April 2018 and published in the EU Official Journal on 19 June 2018. EU member states have to transpose the 5th AMLD into their local laws and regulations by 10 January 2020. The main changes brought by the 5th AMLD: (i) enhance the powers of EU financial intelligence units and facilitate increased transparency regarding who really owns companies and trusts by establishing beneficial ownership registers; (ii) prevent risks associated with the use of virtual currencies for terrorist financing and limit the use of prepaid cards; (iii) improve the safeguards for financial transactions to and from high-risk third countries; (iv) enhance the access of financial intelligence units to information, including centralised bank account registers; (v) ensure centralised national bank and payment account registers or central data retrieval systems in all member states.

FEC/KYC

In September 2018, ING was impacted by the €775 million settlement agreement with the Dutch Public Prosecution Service related to the previously disclosed criminal investigations that found serious shortcomings in the execution of customer due diligence requirements to prevent financial economic crime at ING Netherlands in the period investigated (2010-2016). Read more on ing.com.

The implementation and execution of policies and procedures related to anti-money laundering (AML) is an ongoing activity. In addition, ING has taken a number of specific measures to strengthen its management of compliance risks and address the root causes of the shortcomings. These measures are being implemented as part of the bank-wide, global Know Your Customer (KYC) Enhancement Programme, a multi-year improvement programme with integral steering. This specific programme was officially launched early in 2017 and is expected to run until end-2020. ING is committed to periodically providing the Dutch central bank (DNB) with regular updates on the progress made.

The KYC Enhancement Programme encompasses all client segments in all ING business units, leveraging on experiences from the enhancement programme already started in the Netherlands. The programme consists of three parts: (a) look-back analysis on past deficiencies in post-transaction monitoring. The look-back analysis consists of screening of transactions executed in the past. In case unusual transactions are identified, ING is committed to following the applicable reporting process; (b) enhancement of customer due diligence files with the aim to document sufficiently the knowledge the bank has about its clients in the line with past and new requirements; (c) structural solutions that should support getting sustainably better in addressing money laundering risks in our portfolio and complying with laws and regulations.

The structural solutions comprise five pillars:

- **Development and global roll-out of KYC risk appetite statements, KYC risk assessments on clients, capability structure and maturity assessments**. Setting acceptance criteria based on which clients are on-boarded, transactions are processed or taxes are withheld. This pillar covers also the use of a uniform risk assessment methodology for KYC-related integrity risks and a common taxonomy to measure effectiveness.

- **Development and global roll-out of a bank-wide KYC digital service platform, including processes and tooling around CDD, screening and workflow management.** This includes the fulfilment of the client acceptance and maintenance life cycle within one global digital platform. All required screening components (name screening, pre-transaction screening, adverse media screening) will be incorporated into the client acceptance due diligence process. Once a customer is onboarded, ongoing screening and monitoring of transactions can then be activated.

- **Translation of risk assessment outcomes into scenarios and alert definitions that can be applied in transaction monitoring.** This includes the design and definitions of the applicable financial economic crime (FEC) and client activity monitoring (CAM) scenarios per entity, the building of the alert definitions (including data feeds) and migration to a central tool where relevant and possible, and validating and testing the approach from risks to alerts.

- **Set up central KYC organisation that defines standards and drives global execution and improvements.** This includes the set-up of the new KYC organisation now in place. As of 4Q 2018, we have strengthened the KYC governance by including the heads of the business lines in the KYC Committee. Going forward we will further develop the global KYC function to ensure structural embedding of standardised and uniform ways of working, with regular improvement cycles and support of advanced technologies and insights.

- **Develop and rollout KYC communication and awareness initiatives and set up a behavioural risk department that performs risk assessments.** In its internal communications, ING has made it clear that non-financial risk and compliance are just as important as financial risk and need to be embedded in ING's DNA. An online training module to enhance awareness of KYC was rolled out to all employees worldwide. MBB members spent a considerable amount of time engaging with staff to explain and discuss our responsibility as gatekeepers of the financial system. In these meetings, the impact of the settlement, the root causes, the shortcomings and our commitment and efforts to enhance were discussed. ING started behavioural risk assessments during which more than 100 interviews were held and more than 200 surveys were done to understand better how people, teams and departments interact and work together. Based on these insights, actions for improvement will be considered.

ING recognises that fighting Financial Economic Crime requires close cooperation with other banks and supervisory and regulatory authorities. ING is therefore working with the Dutch Banking Association (NVB) and the Dutch central bank (DNB) on harmonising efforts in the fight against FEC and participates actively in various working groups and project teams in this area. As such, ING actively participates in public-private partnerships to combat FEC, such as participating in the FEC Council PPS ('FEC-RAAD Public Private Cooperation') in which Dutch authorities and financial institutions cooperate on supervision, control, prosecution or investigation with financial sector parties to strengthen the integrity of the sector. This is done by means of preventative action to identify and combat threats to integrity. ING believes that introducing clear accountabilities and standard processes across the financial industry will allow ING to manage and control KYC activities and integrity risks more effectively.

As previously noted, in connection with the above-mentioned investigations ING also received information requests from the US Securities and Exchange Commission (SEC). ING has received a formal notification from the SEC that it has concluded its investigation and, based on the information at that time, the Division of Enforcement does not intend to recommend SEC enforcement action against ING.

On 25 July 2018, the 4th anti money-laundering directive was implemented into the Dutch act on the prevention of anti-money laundering and financing of terrorism (Wet ter voorkoming van witwassen en terrorismefinanciering; Wwft).

The ING Bank Financial Economic Crime Policy and Minimum Standards (FEC Policy, as of January 2019 part of a new, broader KYC policy) have been updated to, amongst other things, reflect the amendments to the *Wwft* and, more generally, reflect relevant national and international laws, regulations and industry standards. All client engagements, products and services of all majority owned ING Bank businesses (or business entities) and businesses under ING Bank's management control are in scope of the ING Bank FEC Policy. The requirements in the ING Bank FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING Bank as Ultra High Risk Countries (UHRC). The effectiveness of those controls is reviewed periodically.

Management of ING Bank entities also maintain local procedures designed to enable them to comply with both local laws and regulations and the ING Bank FEC Policy.

Countries subject to sanctions

As a result of frequent evaluation of all businesses from economic, strategic and risk perspective ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are Cuba, Iran, North Korea, Sudan and Syria.

With regard to Iran specifically, Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added subsection (r) to Section 13 of the Securities Exchange Act of 1934, as amended, which requires us to disclose whether ING Group or any of its affiliates has engaged during the calendar year in certain Iran-related activities, including any transaction or dealing with the Government of Iran that is not conducted pursuant to a specific authorisation of the U.S. government.

ING Bank maintains a limited legacy portfolio of guarantees, accounts, and loans that involve various entities with a connection to Iran. These positions remain on the books but certain accounts related thereto are ‘frozen’ where prescribed by applicable laws and procedures and in all cases subject to increased scrutiny within ING Bank. Specifically, ING Bank has controls in place to monitor transactions related to these accounts. ING Bank may receive loan repayments, duly authorised by the relevant competent authorities where prescribed by applicable laws. For the calendar year 2018, ING Group had revenues of approximately USD 67,321, ING Group estimates that it had a net profit of approximately USD 14,399.

In 2018, the EU updated its blocking regulation in response to the U.S. withdrawal from the Joint Comprehensive Plan of Action. The EU revised this regulation to shield its companies from U.S. sanctions on Iran, in part by prohibiting European companies from complying with the sanctions the EU considers to be “extraterritorial” in nature.

The Ukraine-/Russia-related sanctions imposed by both the US and the EU remained in force in 2018. New sanctions regarding amongst others Russia were added pursuant to the Countering America's Adversaries Through Sanctions Act (“CAATSA”), including the listing of certain Russian companies and individuals as specially designated nationals.

Also in 2018, the UN, EU and the US sanctions regarding the Democratic People’s Republic of Korea (North Korea) remained in place, resulting in an effective exclusion of North Korea from the global financial system. ING Bank has maintained a policy not to enter into new relationships with clients from North Korea, and not to participate in transactions that involve North Korean parties.

With a view to these ongoing developments ING continuously evaluates its sanctions compliance controls to respond to risks of new or expanding sanctions regimes.

For further information regarding compliance with relevant laws, regulations, standards and expectations by ING Bank and its business in certain specified countries, see “Global Regulatory Environment” above.

C. Organizational structure

General

ING Groep N.V., a publicly-listed company, is the parent of one main legal entity: ING Bank N.V. (ING Bank). ING Bank is the parent company of various Dutch and foreign banks.

Principal Group Companies

Reference is made to Exhibit 8 “List of subsidiaries of ING Groep N.V.”

D. Property, plants and equipment

ING predominantly leases the land and buildings used in the normal course of its business. In addition, ING has invested in land and buildings. Management believes that ING's facilities are adequate for its present needs in all material respects.

For information on property, plants and equipment, reference is made to Note 9 'Property and equipment', for information on operating leases reference is made to Note 46 ' Contingent liabilities and commitments' and for information on investment properties reference is made to Note 11 ' Other assets' of Note 2.1 to the consolidated financial statements.

Item 4A. Unresolved Staff comments

Not applicable.

Item 5. Operating and financial review and prospects

The following operating and financial review and prospects should be read in conjunction with the consolidated financial statements and the related Notes thereto included elsewhere herein. The consolidated financial statements have been prepared in accordance with IFRS-IASB. Unless otherwise indicated, financial information for ING Group included herein is presented on a consolidated basis under IFRS-IASB.

A. Operating results

Factors affecting results of operations

ING Group's results of operations are affected by demographics, regulations and by a variety of market conditions, including economic cycles, banking industry cycles and fluctuations in stock markets, interest and foreign exchange rates, political developments and client behavior changes. For further information on regulations reference is made to "Item 4. Information on the Company – Regulation and Supervision". For further information on other factors that can impact ING Group's results of operations, reference is made to "Item 3. Key information - Risk Factors" for more factors that can impact ING Group's results of operations.

Financial environment

Global economic growth more uneven

Brexit negotiations took place throughout 2018 and the year ended without a ratified agreement on how the UK would leave the EU. ING continued to take steps throughout 2018 to prepare for various options, such as applying for a banking licence in the UK, taking actions for contract continuity and working to establish alternatives in the EU for those euro clearing activities that are expected to move from London following Brexit.

Economic growth in some key emerging markets (China, Turkey, Argentina) slowed as trade-restrictive measures increased, financial conditions tightened, and in light of country-specific and geo-political factors.

Financial conditions slightly tighter

As economic momentum in the US remained strong, the Federal Reserve continued hiking interest rates. The European Central Bank reduced its asset purchase programme.

Given differences in monetary policy stances and economic developments, longer-term yields increased in the US and, on balance, moved sideways in the eurozone. However, in Italy, uncertainty about the forthcoming budget led to a considerable increase in sovereign spreads. Given our geographical footprint, eurozone rate developments have a larger impact than rate developments in the US.

There was little progress on eurozone reform in 2018 given the diverse political interests involved. It's clear that the debate on the Economic and Monetary Union is difficult, and progress on the completion of the banking union is slow. We are hoping for progress on the European Deposit Insurance Scheme (EDIS), as it is an absolute requirement

for finishing the Banking Union. Furthermore, we have concern about making a ‘sovereign debt restructuring mechanism’ part of the criteria for support from the European Stability Mechanism.

The review of EU prudential rules, via CRR2/CRD5 (Capital Requirements Regulation/Capital Requirements Directive) and BRRD2 (Bank Recovery and Resolution Directive), was discussed during 2018 by the Council and the European Parliament. The package includes the introduction of new rules, for instance regarding NSFR (net stable funding ratio), a G-SIB (global systemically important bank) surcharge for the leverage ratio, interest rate risk in the banking book and internal MREL (minimum own funds and eligible liabilities).

US dollar on the rise

Strong economic growth and an associated increase in interest rates contributed to a general US dollar appreciation. Currencies of emerging economies with weaker macroeconomic fundamentals and greater political uncertainty have come under downward pressure, e.g. the Turkish lira. We endeavor to limit the impact of volatility on the profitability of our operations in such emerging markets.

Fluctuations in equity markets

Our banking operations are exposed to fluctuations in equity markets. ING Bank maintains an internationally diversified and mainly client-related trading portfolio. Accordingly, market downturns are likely to lead to declines in securities trading and brokerage activities which we execute for customers and therefore to a decline in related commissions and trading results. In addition to this, ING Bank also maintains equity investments in its own non-trading books. Fluctuations in equity markets may affect the value of these investments.

Fluctuations in interest rates

Our banking operations are exposed to fluctuations in interest rates. Mismatches in the interest re-pricing and maturity profile of assets and liabilities in our balance sheet can affect the future interest earnings and economic value of the bank's underlying banking operations. In addition, changing interest rates may impact the (assumed) behavior of our customers, impacting the interest rate exposure, interest hedge positions and future interest earnings, solvency and economic value of the bank’s underlying banking operations. In the current low (and in some cases negative) interest rate environment in the Eurozone, the stability of future interest earnings and margin also depends on the ability to actively manage pricing of customer assets and liabilities. Especially, the pricing of customer savings portfolios in relation to re-pricing customer assets and other investments in our balance sheet is a key factor in the management of the bank’s interest earnings.

Fluctuations in exchange rates

ING Group is exposed to fluctuations in exchange rates. Our management of exchange rate sensitivity affects the results of our operations through the trading activities and because we prepare and publish our consolidated financial statements in euros. Because a substantial portion of our income, expenses and foreign investments is denominated in currencies other than euros, fluctuations in the exchange rates used to translate foreign currencies, particularly the U.S. Dollar, Pound Sterling, Turkish Lira, Chinese Renminbi, Australian Dollar, Japanese Yen, Polish Zloty, Korean Won, the Indian Rupee, Brazilian Real, Singapore Dollar, Thai Baht and Russian Ruble into euros can impact our reported results of operations, cash flows and reserves from year to year. Fluctuations in exchange rates will also impact the value (denominated in euro) of our investments in our non-euro reporting subsidiaries. The impact of these fluctuations in exchange rates is mitigated to some extent by the fact that income and related expenses, as well as assets and liabilities, of each of our non-euro reporting subsidiaries are generally denominated in the same currencies. FX translation risk is managed by taking into account the effect of translation results on the core Tier-1 ratio.

Critical Accounting Policies

A number of new or amended standards became applicable for the current reporting period. ING Group changed its accounting policies as a result of adopting IFRS 9 'Financial Instruments'. The amounts for the period ended 31 December 2018 have been prepared in accordance with IFRS 9. ING Group has applied the classification, measurement, and impairment requirements of IFRS 9 retrospectively as of 1 January 2018 by adjusting the opening balance sheet and opening equity at 1 January 2018. ING Group decided not to restate comparative periods as permitted by IFRS 9.

The other standards and amendments, including IFRS 15, had no significant impact on the group's accounting policies and did not require retrospective adjustments.

Except for the amendment to IFRS 9 regarding prepayment features with negative compensation, ING Group has not early adopted any standard, interpretation or amendment which has been issued, but is not yet effective.

For detailed information regarding ING's accounting policies, including changes in accounting policies, reference is made to 2.1.1 'Notes to the accounting policies' to the consolidated financial statements.

Consolidated result of operations

ING Group's management evaluates the results of ING Group's banking segments using a non-IFRS financial performance measure called underlying result. To give an overview of the underlying result measure, we also present consolidated underlying result before tax and underlying net result. Underlying figures are derived from figures determined in accordance with IFRS-IASB by excluding the impact of special items, adjustment of the EU 'IAS 39 carve-out', Insurance Other, and result from discontinued operations. Special items consist of items of income or expense that are significant and arise from events or transactions that are clearly distinct from ordinary operating activities. The adjustment of the EU 'IAS 39 carve-out' refers to the fact that ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU "carve-out" version of IAS 39. No hedge accounting is applied to these derivatives under IFRS-IASB. Insurance Other reflects (former) insurance related activities that are not part of the discontinued operations.

While items excluded from underlying result are significant components in understanding and assessing the Group's consolidated financial performance, ING Group believes that the presentation of underlying net result is relevant and useful for investors because it allows investors to understand the primary method used by management to evaluate the Group's operating performance and make decisions about allocating resources. In addition, ING Group believes that the presentation of underlying net result helps investors compare its segment performance on a meaningful basis by highlighting result before tax attributable to ongoing operations and the underlying profitability of the segment businesses. For example, ING believes that trends in the underlying profitability of its segments can be more clearly identified by disregarding the effects of special items and the impact of the IAS39 carve-out adjustment. ING Group believes that the most directly comparable GAAP financial measure to underlying net result is net result. However, underlying net result should not be regarded as a substitute for net result as determined in accordance with IFRS-IASB. Because underlying net result is not determined in accordance with IFRS-IASB, underlying net result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. In addition, ING Group's definition of underlying net result may change over time.

The section Segment Reporting Banking Operations on the next pages presents the segment results on the basis of the performance measure underlying result.

For further information on underlying result for the Banking activities, as well as the reconciliation of our segment underlying result before tax to our net result, see Note 35 ‘Segments’ of Note 2.1 to the consolidated financial statements.

Group Overview

The following table sets forth the consolidated results of ING Group in accordance with IFRS-IASB for the years ended 31 December 2018, 2017 and 2016:

IFRS-IASB Consolidated Income Statement

Amounts in millions of euros	**2018**	**2017**	**2016**
Continuing operations			
Interest income	27,747	43,890	44,182
Interest expense	13,787	30,243	30,941
Net interest income	13,960	13,647	13,241
Net fee and commission income	2,798	2,710	2,433
Investment and Other income	1,566	2,233	2,228
Total income	**18,324**	**18,590**	**17,902**
Operating expenses	10,682	9,829	10,614
Addition to loan loss provisions	656	676	974
Total expenditure	**11,338**	**10,505**	**11,588**
Result before tax	**6,986**	**8,085**	**6,314**
Taxation	2,116	2,539	1,705
Net result from continuing operations	4,869	5,546	4,608
Net result from discontinued operations			441
Non-controlling interests from continuing and discontinued operations	108	82	75
Net result IFRS-IASB	**4,761**	**5,464**	**4,975**

Reconciliation from IFRS-IASB to ING Group’s underlying results

Amounts in millions of euros	**2018**	**2017**	**2016**
Net result IFRS-IASB	**4,761**	**5,464**	**4,975**
-/- Special items [1]	-775	0	-799
-/- Adjustment of the EU 'IAS 39 carve-out'	58	559	324
-/- Insurance Other	90	-52	33
-/- Result from discontinued operations [2]			441

Underlying net result	**5,389**	**4,957**	**4,976**

1. Special items: settlement agreement with the Dutch authorities on regulatory issues as announced on 4 September 2018 (EUR -775 million, 2018); tax charge of EUR 121 million at ING Australia Holdings Ltd related to the years 2013-2017, for

which a full reimbursement is expected to be received from NN Group (impact on net result EUR 0 million, 2017); ING Group's digital transformation programmes (EUR -787 million, 2016), Retail Netherlands strategy (EUR -13 million, 2016).

2. Result from discontinued operations: in 2016, ING Group sold its remaining shares in NN Group resulting in a net profit of EUR 448 million which is recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations. Also included in this line, are deferred losses related to former insurance activities.

Year ended 31 December 2018 compared to year ended 31 December 2017

ING posted strong commercial results in 2018, but they were negatively affected by the EUR 775 million settlement agreement with the Dutch authorities on regulatory issues. The net result dropped to EUR 4,761 million from EUR 5,464 million in 2017, primarily due to the settlement agreement which was recorded as a special item. In 2017, there was a special item related to a EUR 121 million tax charge at ING Australia Holdings Ltd, for which a full reimbursement will be received from NN Group. Although the bottom-line impact for ING Bank was nil, it affected both the tax and 'other income' lines. The net result in 2018 also included EUR 58 million increase in fair value changes on derivatives (including a negative impact under net interest income of ending some hedge relationships) related to asset-liability-management activities for the mortgage and savings portfolios in Benelux, Germany and Czech Republic, with the EU carve-out version of IAS 39 applied, while these fair value changes were EUR 559 million in 2017. Insurance Other added EUR 90 million to the net result, compared with a EUR 52 million loss in 2017. Insurance Other mainly comprised the net result on the warrants on Voya Financial and NN Group shares. ING sold its remaining part of warrants on the shares of Voya Financial in March 2018, while the warrant agreement between NN Group and ING was terminated in November 2018.

Underlying net result for 2018 was EUR 5,389 million, an increase of 8.7% from EUR 4,957 million in 2017. Underlying net result is derived from total net result by excluding the impact of special items, adjustment of the ‘EU IAS 39 carve-out’, Insurance Other, and the result from discontinued operations.

Year ended 31 December 2017 compared to year ended 31 December 2016

ING Group posted a strong set of results in 2017, driven by continued lending growth, increased fee income and

lower risk costs. The net result rose to EUR 5,464 million from EUR 4,975 million in 2016, which included EUR -799 million of special items after tax (primarily comprising restructuring charges and impairments related to the digital transformation programmes as announced in October 2016), Insurance Other in an amount of EUR 33 million related to a higher valuation of warrants on NN Group and Voya shares compared with the end of 2015 and a EUR 441 million net result from the discontinued operations of NN Group. The net result of 2016 also included EUR 324 million increase in fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic, with the EU carve-out version of IAS 39 applied. In 2017, there was one special item related to a EUR 121 million tax charge at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement will be received from NN Group. Although the impact on net result was nil, this special item affected both the ‘taxation’ and 'investment and other income' lines. ING Group’s 2017 net result also included a EUR 52 million loss on the warrants on NN Group and Voya shares, and EUR 559 million fair value changes on derivatives (including a negative impact under net interest income of ending some hedge relationships) according to EU IAS 39 carve-out under IFRS-EU.

Underlying net result for 2017 was EUR 4,957 million, a decrease of 0.4% from EUR 4,976 million in 2016. Underlying net result is derived from total net result by excluding the impact of special items, adjustment of the ‘EU IAS 39 carve-out’, Insurance Other, and the result from discontinued operations.

Segment Reporting

Underlying result as presented below is a non-IFRS financial measure and is not a measure of financial performance under IFRS-IASB. Because underlying result is not determined in accordance with IFRS-IASB, underlying result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. The underlying result of ING's segments is reconciled to the Net result as reported in the IFRS-IASB Consolidated profit or loss account below. The information presented in this section is in line with the information presented to the Executive Board and Management Board Banking.

For further information on underlying result for the Banking activities, as well as the reconciliation of our segment underlying result before tax to our net result, see Note 35 'Segments' of Note 2.1 to the consolidated financial statements.

ING Group's segments are based on the internal reporting structures. The following table specifies the segments by line of business and the main sources of income of each of the segments:

Retail Netherlands *(Market Leaders)*

Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.

Retail Belgium *(Market Leaders)*

Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.

Retail Germany *(Challengers and Growth Markets)*

Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.

Retail Other *(Challengers and Growth Markets)*

Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.

Wholesale Banking

Income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease.

The accounting policies of the segments are the same as those described in Note 1 Accounting policies of Note 2.1 to the consolidated financial statements. Transfer prices for inter-segment transactions are set at arm’s length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

ING Group evaluates the results of its banking segments using a non-IFRS financial performance measure called underlying result. Underlying result is derived from result determined in accordance with IFRS-IASB by excluding the impact of special items, adjustment of the ‘EU IAS 39 carve-out’, Insurance Other, and results from discontinued operations.

The published 2018 Annual Accounts of ING Group includes this financial information in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). The segment reporting in the annual report on Form 20-F has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) for consistency with the other financial information contained in this report. The difference between the accounting standards is reflected in the Wholesale segment, and in the regions the Netherlands, Belgium, Germany and Other Challengers. Reference is made to Note 1 'Accounting Policies' for a reconciliation between IFRS-EU and IFRS-IASB.

Corporate Line Banking

In addition to these segments, ING Group reconciles the total segment results to the total result of Banking using Corporate Line Banking. The Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. The Corporate Line Banking includes the isolated legacy costs (mainly negative interest results) caused by the replacement of short-term funding with long-term funding during 2012 and 2013. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

Banking Operations

The following table sets forth the contribution of ING's banking business lines and the corporate line banking to the underlying net result for each of the years 2018, 2017 and 2016.

1 January to 31 December 2018 Amounts in millions of euros	**Retail Banking Netherlands**	**Retail Banking Belgium**	**Retail Banking Germany**	**Retail Other**	**Wholesale Banking**	**Corporate Line Banking**	**Total**
Underlying income:							
- Net interest income	3,488	1,830	1,671	2,690	3,947	290	13,916
- Net fee and commission income	654	371	225	395	1,161	-4	2,803
- Total investment and other income	335	169	76	230	673	-113	1,369
Total underlying income	**4,476**	**2,369**	**1,972**	**3,315**	**5,781**	**173**	**18,088**
Underlying expenditure:							
- Underlying operating expenses	2,165	1,610	1,027	2,033	2,826	247	9,907
- Additions to loan loss provision	-31	164	-27	350	200	-1	656
Total underlying expenditure	**2,134**	**1,774**	**1,000**	**2,383**	**3,026**	**246**	**10,563**
Underlying result before taxation	**2,342**	**595**	**972**	**932**	**2,755**	**-72**	**7,524**
Taxation	578	199	324	200	681	47	2,028
Non-controlling interests	0	6	3	80	19	0	108
Underlying net result	**1,764**	**390**	**646**	**652**	**2,055**	**-119**	**5,389**
Special items						-775	-775
Adjustment of the EU 'IAS 39 carve-out'					58		58
Net result Banking	**1,764**	**390**	**646**	**652**	**2,113**	**-894**	**4,672**
Net result Insurance Other							90
Net result from continuing operations							**4,761**
Net result IFRS-IASB							**4,761**

1 January to 31 December 2017 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total
Underlying income:							
- Net interest income	3,610	1,842	1,704	2,437	3,895	226	13,714
- Net fee and commission income	601	408	215	384	1,108	–3	2,714
- Total investment and other income	257	224	–28	207	919	–301	1,277
Total underlying income	**4,468**	**2,473**	**1,891**	**3,028**	**5,922**	**–78**	**17,704**
Underlying expenditure:							
- Underlying operating expenses	2,212	1,584	1,032	1,919	2,792	290	9,829
- Additions to loan loss provision	13	104	–10	284	284	1	676
Total underlying expenditure	**2,224**	**1,688**	**1,022**	**2,203**	**3,076**	**291**	**10,505**
Underlying result before taxation	**2,243**	**785**	**869**	**825**	**2,846**	**–369**	**7,199**
Taxation	566	296	241	188	881	–13	2,160
Non-controlling interests	0	–2	2	67	15	0	82
Underlying net result	**1,678**	**491**	**625**	**569**	**1,950**	**–356**	**4,957**
Special items						0	0
Adjustment of the EU 'IAS 39 carve-out'					559		559
Net result Banking	**1,678**	**491**	**625**	**569**	**2,509**	**–356**	**5,516**
Net result Insurance Other							–52
Net result from continuing operations							**5,464**
Net result IFRS-IASB							**5,464**

1 January to 31 December 2016 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total
Underlying income:							
- Net interest income	3,653	1,936	1,689	2,107	3,750	106	13,241
- Net fee and commission income	546	385	183	320	1,003	–3	2,433
- Total investment and other income	237	253	51	432	855	–44	1,785
Total underlying income	**4,436**	**2,573**	**1,923**	**2,859**	**5,608**	**59**	**17,458**
Underlying expenditure:							
- Underlying operating expenses	2,560	1,438	886	1,723	2,572	278	9,456
- Additions to loan loss provision	171	175	–18	278	368	0	974
Total underlying expenditure	**2,731**	**1,613**	**868**	**2,001**	**2,940**	**278**	**10,430**
Underlying result before taxation	**1,705**	**961**	**1,055**	**858**	**2,668**	**–219**	**7,028**
Taxation	422	306	315	178	753	2	1,977
Non-controlling interests	0	1	2	60	11	0	75
Underlying net result	**1,282**	**653**	**738**	**620**	**1,903**	**–221**	**4,976**
Special items	–192	–418	0	–12	–149	–27	–799
Adjustment of the EU 'IAS 39 carve-out'					324		324
Net result Banking	**1,090**	**235**	**738**	**608**	**2,078**	**–248**	**4,501**
Net result Insurance Other							33
Net result from continuing operations							**4,534**
Net result from discontinued operations							441
Net result IFRS-IASB							**4,975**

Year ended 31 December 2018 compared to year ended 31 December 2017

ING's banking operations posted strong commercial results in 2018, but they were negatively affected by the EUR 775 million settlement agreement with the Dutch authorities on regulatory issues. The net result Banking (including the impact of special items and adjustment of the EU 'IAS 39 carve-out') dropped to EUR 4,672 million from EUR 5,516 million in 2017, primarily due to the settlement agreement which was recorded as a special item. In 2017, there was a special item related to a EUR 121 million tax charge at ING Australia Holdings Ltd, for which a full reimbursement will be received from NN Group. Although the bottom-line impact for ING was nil, it affected both the tax and 'other income' lines. The result was negatively affected by a EUR 501 million lower net contribution of fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB.

The underlying net result rose 8.7% to EUR 5,389 million in 2018 from EUR 4,957 million in 2017; this was partly caused by a lower underlying effective tax rate supported by the tax reforms in Belgium and the US. Underlying net result is derived from total net result by excluding the impact from special items and adjustment of the EU ‘IAS 39 carve-out’.

The underlying result before tax rose 4.5% to EUR 7,524 million in 2018 from EUR 7,199 million in 2017, primarily driven by continued business growth at resilient interest margins, higher net fee and commission income, and slightly lower risk costs. Commercial performance was strong in 2018. ING grew net core lending (adjusted for currency impacts, and excluding Bank Treasury and the run-off portfolios) by EUR 36.6 billion, or 6.4%, and net customer deposits rose by EUR 19.3 billion in 2018. The global retail customer base grew by one million customers to reach 38.4 million over the year, and the number of primary customers rose by 1.1 million to 12.5 million.

Total underlying income increased 2.2% to EUR 18,088 million from EUR 17,704 million in 2017. Net interest income rose 1.5% to EUR 13,916 million, due to an increase of the average balance sheet total, partly offset by a narrowing of the net interest margin to 1.53% from 1.54% in 2017. The increase of the average balance sheet was mainly driven by the continued growth in net core lending and customer deposits. The interest result on customer lending activities increased driven by higher volumes at stable margins. The interest result on customer deposits slightly declined, as the impact of volume growth was more than offset by margin pressure on current accounts (due to lower reinvestment yields); the interest margin on savings stabilized, mainly due to a further lowering of client savings rates in several countries. Net interest income was furthermore negatively affected by a decline in the volatile interest results of Financial Markets. Net fee and commission income rose 3.3% to EUR 2,803 million. The increase was mainly in Wholesale Banking (supported by the inclusion of Payvision as from the second quarter of 2018) and most of the Retail Banking countries, except for Belgium and Turkey. Investment and other income rose to EUR 1,369 million from EUR 1,277 million in 2017, mainly caused by higher valuation results and net trading income, including improved hedge ineffectiveness results, and one-off results. The increase was primarily visible in Retail Banking (excluding Belgium) and the Corporate Line. In Wholesale Banking, investment and other income declined, mainly due a loss recorded on the intended sale of an Italian lease run-off portfolio in 2018, while 2017 included a gain on the sale of an equity stake in the real estate run-off portfolio.

Underlying operating expenses increased 0.8% to EUR 9,907 million from EUR 9,829 million in 2017. In 2018, expenses included EUR 947 million of regulatory expenses up from EUR 901 million in the previous year. Excluding regulatory costs, expenses were up 0.4%, as higher costs for strategic projects and to support business growth, were largely offset by lower performance-related expenses and strict cost management. The underlying cost/income ratio improved to 54.8% from 55.5% in 2017.

The net addition to the provision for loan losses declined 3.0% to EUR 656 million from EUR 676 million in 2017. Risk costs were 21 basis points of average risk-weighted assets, which is well below ING Bank’s through-the-cycle average of 40-45 basis points.

Year ended 31 December 2017 compared to year ended 31 December 2016

Net result Banking (including the impact of special items and adjustment of the EU ‘IAS 39 carve-out’) rose to EUR 5,516 million from EUR 4,501 million in 2016. In 2017, there was one special item related to a EUR 121 million tax charge at ING Australia Holdings Ltd, for which a full reimbursement is expected to be received from NN Group. Although the impact on net result was nil, this special item affected both the ‘taxation’ and 'total investment and other income' lines. Special items in 2016 included EUR -787 million after tax related to the digital transformation programmes announced in October 2016 and EUR -13 million after tax related to earlier announced restructuring programmes in Retail Netherlands. The increase in result was positively affected by a EUR 235 million increase in fair value changes on derivatives (including a negative impact under net interest income of ending some hedge relationships) related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB.

The underlying net result declined 0.4% to EUR 4,957 million in 2017 from EUR 4,976 million in 2016. The 2017 underlying net result included a higher underlying effective tax rate. This was mainly caused by the impact of the tax reforms in Belgium and the US, which resulted in a tax charge to record a reduction in deferred tax assets.

Underlying net result is derived from total net result by excluding the impact from special items and adjustment of the EU ‘IAS 39 carve-out’.

The underlying result before tax rose 2.4% to EUR 7,199 million in 2017 from EUR 7,028 million in 2016, primarily driven by continued business growth at resilient interest margins, higher commission income and lower risk costs. This was achieved despite lower one-off gains and volatile items, and despite an increase in operating expenses. Commercial performance was robust in 2017: ING grew net core lending (adjusted for currency impacts and excluding Bank Treasury and the WUB and Lease run-off portfolios) by EUR 26.9 billion, or 4.8%, and net customer deposits rose by EUR 19.0 billion compared to year-end 2016. ING grew the retail customer base by 1.6 million to 37.4 million during 2017, including a 900,000 increase in the number of primary clients to 10.8 million.

Total underlying income increased 1.4% to EUR 17,704 million from EUR 17,458 million in 2016, despite lower one-off gains and volatile items in 2017. The underlying interest result rose 3.6% to EUR 13,714 million from EUR 13,241 million in 2016, due to an increase of the net interest margin to 1.54% from 1.52% in 2016, combined with a slightly higher average balance sheet total. The increase of the average balance sheet was limited as continued growth in net core lending and customer deposits was largely offset by declines in investments and debt securities in issue. The interest result on customer lending activities increased driven by higher volumes at resilient margins. The interest result on customer deposits declined, as the impact of volume growth was more than offset by margin pressure on both savings and current accounts due to lower reinvestment yields and despite a further lowering of client savings rates in several countries. The growth of the interest result was furthermore supported by improved interest results in Bank Treasury and the Corporate Line, with part of the increase being structural due to a gradual redemption of the isolated legacy funding costs. Commission income rose 11.5% to EUR 2,714 million. The increase was recorded in most segments and products, with the relatively strongest growth in the Retail Challengers & Growth Markets. Total investment and other income fell to EUR 1,277 million from EUR 1,785 million in 2016. The decline was mainly caused by lower one-off gains (2016 included among others a EUR 200 million gain on the sale of Visa shares in Retail Banking and releases from revaluation reserves at Corporate Line) and negative hedge ineffectiveness results.

Underlying operating expenses increased 3.9% to EUR 9,829 million from EUR 9,456 million in 2016. In 2017, expenses included EUR 901 million of regulatory expenses compared with EUR 845 million in 2016. Excluding regulatory costs, expenses were up 3.7% mainly due to strategic projects (including an acceleration in digital investments), higher costs to support business growth and some one-offs.

The net addition to the provision for loan losses declined 30.6% to EUR 676 million from EUR 974 million in 2016. Risk costs were 22 basis points of average risk-weighted assets, which is well below ING’s through-the-cycle average of 40-45 basis points.

RETAIL NETHERLANDS

Amounts in millions of euros	**2018**	**2017**	**2016**
Underlying income:			
Net interest income	3,488	3,610	3,653
Net fee and commission income	654	601	546
Investment income and other income	335	257	237
Total underlying income	**4,476**	**4,468**	**4,436**
Underlying expenditure:			
Underlying operating expenses	2,165	2,212	2,560
Additions to the provision for loan losses	–31	13	171
Total underlying expenditure	**2,134**	**2,224**	**2,731**
Underlying result before tax	**2,342**	**2,243**	**1,705**
Taxation	578	566	422
Underlying net result	**1,764**	**1,678**	**1,282**
Special items			–192
Net result	**1,764**	**1,678**	**1,090**

Year ended 31 December 2018 compared to year ended 31 December 2017

Both net result and underlying net result of Retail Netherlands increased by EUR 86 million, or 5.1%, to EUR 1,764 million in 2018 from EUR 1,678 million in 2017. There were no special items in 2018 and 2017.

The underlying result before tax of Retail Netherlands rose 4.4% to EUR 2,342 million from EUR 2,243 million in 2017. This was mainly due to lower risk costs and benefits from the ongoing cost-saving programmes.

Underlying income rose 0.2% to EUR 4,476 million. The interest result was 3.4% lower, mainly caused by margin pressure on savings and current accounts, and a decline in the average lending volumes, partly offset by higher margins on mortgages. Net core lending (excluding the WUB run-off portfolio and Bank Treasury-related products) grew by EUR 1.9 billion as from 1 January 2018, of which EUR 0.8 billion in mortgages and EUR 1.1 billion in other lending. Net growth in customer deposits (excluding Bank Treasury) was EUR 3.5 billion in 2018. Net fee and commission income rose by EUR 53 million, or 8.8%, primarily due to higher daily banking fees. Investment and other income rose by EUR 78 million, mainly attributable to higher allocated Bank Treasury revenues.

Underlying operating expenses declined 2.1% on 2017, mainly driven by the benefits from the ongoing cost-saving initiatives and lower expenses for legal claims.

Risk costs turned to a net release of EUR 31 million, or -6 basis points of average risk-weighted assets, from a net addition of EUR 13 million in 2017, reflecting the continued positive macroeconomic conditions in the Netherlands.

Year ended 31 December 2017 compared to year ended 31 December 2016

Net result of Retail Netherlands rose to EUR 1,678 million from EUR 1,090 million in 2016. Underlying net result increased 30.9% to EUR 1,678 million from EUR 1,282 million in 2016. In 2017, there were no special items. In 2016, special items after tax excluded from underlying net result were EUR -192 million, of which EUR -180 million related to the digital transformation programmes announced in October 2016 and EUR -13 million to the restructuring programmes in Retail Netherlands announced before 2013.

The underlying result before tax of Retail Netherlands rose 31.6% to EUR 2,243 million from EUR 1,705 million in 2016, due to lower risk costs and the benefits from the cost-saving initiatives, while income was slightly up supported by higher commission income. Underlying income rose 0.7% to EUR 4,468 million. The interest result was 1.2% lower, mainly caused by a decline in lending volumes and margin pressure on current accounts, partly offset by higher margins on savings. The lower lending volumes were for more than half caused by a further decline in the WUB run-off portfolio, including the continued transfer of WUB mortgages to NN Group. Net core lending (excluding the WUB portfolio and Bank Treasury-related products) declined by EUR 2.5 billion, primarily in mortgages, whereas the decline in other lending was limited. Net customer deposits (excluding Bank Treasury) grew by EUR 4.6 billion. Commission income rose by EUR 55 million, or 10.1%, primarily in current account fees. Investment and other income was up EUR 20 million.

Underlying operating expenses declined 13.6% on 2016, mainly driven by the benefits from the cost-saving initiatives, while 2016 included additional provisioning for Dutch SME clients with interest rate derivatives and higher restructuring costs. Risk costs declined to EUR 13 million, or 3 basis points of average risk-weighted assets, from EUR 171 million in 2016, reflecting the positive economic conditions in the Netherlands and strong housing market.

RETAIL BELGIUM

Amounts in millions of euros	**2018**	**2017**	**2016**
Underlying income:			
Net interest income	1,830	1,842	1,936
Net fee and commission income	371	408	385
Investment income and other income	169	224	253
Total underlying income	**2,369**	**2,473**	**2,573**
Underlying expenditure:			
Underlying operating expenses	1,610	1,584	1,438
Additions to the provision for loan losses	164	104	175
Total underlying expenditure	**1,774**	**1,688**	**1,613**
Underlying result before tax	**595**	**785**	**961**
Taxation	199	296	306
Non-controlling interests	6	–2	1
Underlying net result	**390**	**491**	**653**
Special items			–418
Net result	**390**	**491**	**235**

Year ended 31 December 2018 compared to year ended 31 December 2017

Both net result and underlying net result of Retail Belgium (including ING in Luxembourg) declined by EUR 101 million, or 20.6%, to EUR 390 million in 2018 from EUR 491 million in 2017. The decrease was partly mitigated by a lower underlying effective tax rate, because 2017 included the impact of a tax reform in Belgium, which resulted in a tax charge to record a reduction in deferred tax assets. There were no special items in 2018 and 2017.

The underlying result before tax of Retail Belgium fell 24.2% to EUR 595 million in 2018, compared with EUR 785 million in 2017. The decline reflects lower income, higher expenses and an increase in risk costs.

Underlying income decreased to EUR 2,369 million from EUR 2,473 million in 2017. The interest result declined 0.7% to EUR 1,830 million, mainly due to margin pressure on most products, in part offset by volume growth in the lending portfolio as well as current accounts. The net production in customer lending (excluding Bank Treasury and the sale of a mortgage portfolio) was EUR 6.1 billion, of which EUR 2.2 billion was in mortgages and EUR 3.9 billion in other lending. The net inflow in customer deposits was EUR 3.0 billion in 2018. Net fee and commission income decreased 9.1%, mainly due to lower fee income on investment products. Investment and other income fell by EUR 55 million, mainly due to lower income from financial markets products.

Operating expenses rose by EUR 26 million, or 1.6%, to EUR 1,610 million, mainly due to higher external staff expenses related to the transformation programmes and the successful integration of Record Bank into ING Belgium. Risk costs increased by EUR 60 million to EUR 164 million, or 44 basis points of risk-weighted assets, from EUR 104 million, or 30 basis points of risk-weighted assets, in 2017. The increase was primarily in business lending.

Year ended 31 December 2017 compared to year ended 31 December 2016

Net result of Retail Belgium (including ING in Luxembourg) rose to EUR 491 million in 2017 compared with EUR 235 million in 2016, which included EUR -418 million of special items after tax and were fully related to the digital transformation programmes as announced in October 2016. Underlying net result, which excludes special items, decreased 24.8% to EUR 491 million from EUR 653 million in 2016. The decline was partly caused by a higher underlying effective tax rate, mainly driven by the impact of a tax reform in Belgium, which resulted in a tax charge to record a reduction in deferred tax assets.

The underlying result before tax of Retail Belgium fell 18.3% to EUR 785 million in 2017, compared with EUR 961 million in 2016. The decline mainly reflects lower net interest income and higher expenses, partly offset by lower risk costs and increased fee income. Underlying income decreased to EUR 2,473 million from EUR 2,573 million in 2016. The interest result declined 4.9% to EUR 1,842 million, mainly due to lower margins on savings and current accounts, and lower prepayment and renegotiation fees on mortgages; this was partly offset by volume growth in lending. The net production in customer lending (excluding Bank Treasury) was EUR 4.7 billion, of which EUR 3.2 billion was in mortgages and EUR 1.5 billion in other lending. The net inflow in customer deposits was EUR 1.4 billion compared with year-end 2016. Commission income rose 6.0%, predominantly higher investment product fees. Investment and other income fell by EUR 29 million, as 2016 included a gain on the sale of Visa shares.

Operating expenses rose by EUR 146 million, or 10.2% to EUR 1,584 million, mainly due to higher external staff expenses related to the transformation programmes and the EUR -95 million one-off expense adjustment in 2016. Risk costs dropped by EUR 71 million to EUR 104 million, or 30 basis points of average risk-weighted assets. The decrease was fully in business lending, while risk costs for mortgages and consumer lending were broadly stable.

RETAIL GERMANY

Amounts in millions of euros	**2018**	**2017**	**2016**
Underlying income:			
Net interest income	1,671	1,704	1,689
Net fee and commission income	225	215	183
Investment income and other income	76	–28	51
Total underlying income	**1,972**	**1,891**	**1,923**
Underlying expenditure:			
Underlying operating expenses	1,027	1,032	886
Additions to the provision for loan losses	–27	–10	–18
Total underlying expenditure	**1,000**	**1,022**	**868**
Underlying result before tax	**972**	**869**	**1,055**
Taxation	324	241	315
Non-controlling interests	3	2	2
Underlying net result	**646**	**625**	**738**
Net result	**646**	**625**	**738**

Year ended 31 December 2018 compared to year ended 31 December 2017

Both net result and underlying net result of Retail Germany (including ING in Austria) increased by EUR 21 million, or 3.4%, to EUR 646 million in 2018 from EUR 625 million in 2017.

The underlying result before tax increased 11.9% to EUR 972 million, compared with EUR 869 million in 2017, mainly due to higher income and a net release in risk costs.

Underlying income increased 4.3% to EUR 1,972 million in 2018 from EUR 1,891 million a year ago. Net interest income declined 1.9% reflecting margin compression on mortgages and current accounts, and lower Bank Treasury-related interest income. This was only partly offset by higher margins on savings and deposits and volume growth in most products. Net core lending growth, which excludes Bank Treasury products, was EUR 4.4 billion in 2018, of which EUR 3.6 billion was in mortgages and EUR 0.8 billion in consumer lending. Net inflow in customer deposits (excluding Bank Treasury) was EUR 5.0 billion, mainly driven by a promotional savings campaign in the fourth quarter of 2018. Net fee and commission income rose 4.7%, due to higher fee income on investment products and an improvement in fees on current accounts. Investment and other income rose to EUR 76 million, mainly due to improved hedge ineffectiveness results from Bank Treasury.

Operating expenses declined 0.5% to EUR 1,027 million from EUR 1,032 million in 2017. This decrease was mainly caused by lower regulatory costs and a decline in marketing expenses, partly offset by higher costs to support business growth and a restructuring provision in 2018. Risk costs were EUR -27 million in 2018, compared with EUR

-10 million in 2017, reflecting a benign credit environment in the German market and a review of the consumer lending portfolio.

Year ended 31 December 2017 compared to year ended 31 December 2016

Both net result and underlying net result of Retail Germany (including ING in Austria) decreased by EUR 113 million, or 15.3%, to EUR 625 million in 2017 from EUR 738 million in 2016. There were no special items in 2017 and 2016.

Retail Germany's underlying result before tax decreased 17.6% to EUR 869 million, compared with EUR 1,055 million in 2016. The decrease was primarily caused by higher operating expenses; income was slightly lower, whereas risk costs resulted (again) in a net release. Underlying income decreased slightly to EUR 1,891 million in 2017 from EUR 1,923 million in 2016, when result was supported by a gain on the sale of Visa shares. Net interest income rose 0.9% following continued business growth, partly offset by lower interest margins on most products. The net production in customer lending (excluding Bank Treasury and movement in the mortgage hedge) was EUR 2.7 billion, of which EUR 1.7 billion was in mortgages and EUR 1.0 billion in consumer lending. Net inflow in customer deposits (excluding Bank Treasury) was EUR 3.8 billion in 2017. Commission income rose 17.5% to EUR 215 million, with investment products as one of the key drivers. Investment and other income was EUR 79 million lower, mainly due to negative hedge results and the EUR 44 million gain on the sale of Visa shares in 2016.

Operating expenses increased 16.5% to EUR 1,032 million, from EUR 886 million in 2016. The increase was next to EUR 30 million higher regulatory costs, mainly due to a higher headcount to support business growth, higher costs related to the acquisition of primary customers and investments in strategic projects (including project Welcome). Risk costs were EUR -10 million in 2017 (compared with EUR -18 million in 2016), reflecting a benign credit environment in the German market and model updates for consumer lending and overdrafts.

RETAIL OTHER

Amounts in millions of euros	**2018**	**2017**	**2016**
Underlying income:			
Net interest income	2,690	2,437	2,107
Net fee and commission income	395	384	320
Investment income and other income	230	207	432
Total underlying income	**3,315**	**3,028**	**2,859**
Underlying expenditure:			
Underlying operating expenses	2,033	1,919	1,723
Additions to the provision for loan losses	350	284	278
Total underlying expenditure	**2,383**	**2,203**	**2,001**
Underlying result before tax	**932**	**825**	**858**
Taxation	200	188	178
Non-controlling interests	80	67	60
Underlying net result	**652**	**569**	**620**
Special items			–12
Net result	**652**	**569**	**608**

Year ended 31 December 2018 compared to year ended 31 December 2017

Retail Other consists of the Other Challengers & Growth Markets, including the stakes in Asia. Both net result and underlying net result of Retail Other increased by EUR 83 million, or 14.6%, to EUR 652 million in 2018 from EUR 569 million in 2017. There were no special items in 2018 and 2017.

Retail Other's underlying result before tax increased 13.0% to EUR 932 million in 2018, from EUR 825 million in 2017. This was mainly due to higher income, partly offset by increased expenses and higher risk costs.

Total underlying income rose by EUR 287 million, or 9.5%, to EUR 3,315 million. This increase was driven by continued strong commercial results across most countries, reflecting customer growth and higher volumes. Net interest income rose 10.4% to EUR 2,690 million, reflecting sustainable growth in lending and customer deposits volumes and an improved total interest margin. The net production (excluding currency effects and Bank Treasury) in customer lending was EUR 9.6 billion, of which EUR 6.4 billion was in mortgages and EUR 3.2 billion in other lending (mainly consumer loans). Net customer deposits grew by EUR 8.6 billion in 2018. Net fee and commission income rose 2.9% driven by increases in most countries, partly offset by a decline in Turkey. Investment and other income increased by EUR 23 million, mainly due to a higher dividend from Bank of Beijing and a higher profit contribution from ING Bank's 25% stake in TMB (which was mainly driven by one-offs), while previous year included a gain on the sale of MasterCard shares in Turkey.

Operating expenses increased by EUR 114 million, or 5.9%, to EUR 2,033 million. This increase was, next to higher regulatory costs, mainly due to higher staff expenses in most counties to support commercial growth and higher investments in strategic projects. Risk costs were EUR 350 million, or 71 basis points of average risk-weighted assets, compared with EUR 284 million, or 58 basis points, in 2017. The increase was mainly attributable to higher risk costs in Italy, Romania and Poland, while risk costs in Turkey remained on the same high level as in 2017.

Year ended 31 December 2017 compared to year ended 31 December 2016

Net result of Retail Other decreased to EUR 569 million in 2017 compared with EUR 608 million in 2016, when the net result included EUR -12 million in special items after tax related to the digital transformation programmes as announced in October 2016. Underlying net result, which excludes special items, declined to EUR 569 million in 2017 compared with EUR 620 million in 2016.

Retail Other’s underlying result before tax decreased 3.8% to EUR 825 million in 2017, from EUR 858 million in 2016, which was supported by a EUR 109 million gain on the sale of Visa shares. Total underlying income increased by EUR 169 million, or 5.9%, to EUR 3,028 million. Excluding the gain on Visa shares in 2016, underlying income grew by 10.1%. This increase was driven by strong commercial results across most countries. Net interest income rose 15.7% to EUR 2,437 million due to continued volume growth and higher margins on lending, partly offset by lower margins on savings and current accounts. The net production (excluding currency effects and Bank Treasury) in customer lending was EUR 9.3 billion, of which EUR 5.1 billion was in mortgages and EUR 4.2 billion in other lending (mainly consumer loans). The net production in customer deposits was EUR 8.1 billion. Commission income rose 20.0% driven by continued client and volume growth in most countries. Investment and other income was significantly lower, as the previous year included a EUR 109 million gain on Visa shares, but also a EUR 32 million gain from the reduction of ING’s stake in Kotak Mahindra Bank.

Operating expenses increased by EUR 196 million, or 11.4%, to EUR 1,919 million. This increase was mainly due to increased staff and marketing expenses in most countries to support business, as well as higher investments for strategic projects. The addition to the provision for loan losses was EUR 284 million, or 58 basis points of average risk-weighted assets, compared with EUR 278 million, or 57 basis points, in 2016. The slight increase was mainly attributable to higher risk costs in Poland, Spain and (to a lesser extent) Australia, partly offset by declines in Italy and Turkey.

WHOLESALE BANKING

Amounts in millions of euros	**2018**	**2017**	**2016**
Underlying income:			
Net interest income	3,947	3,895	3,750
Net fee and commission income	1,161	1,108	1,003
Investment income and other income	673	919	855
Total underlying income	**5,781**	**5,922**	**5,608**
Underlying expenditure:			
Underlying operating expenses	2,826	2,792	2,572
Additions to the provision for loan losses	200	284	368
Total underlying expenditure	**3,026**	**3,076**	**2,940**
Underlying result before tax	**2,755**	**2,846**	**2,668**
Taxation	681	881	753
Non-controlling interests	19	15	11
Underlying net result	**2,055**	**1,950**	**1,903**
Special items			–149
Adjustment of the EU 'IAS 39 carve-out'	58	559	324
Net result	**2,113**	**2,509**	**2,078**

Year ended 31 December 2018 compared to year ended 31 December 2017

The net result of Wholesale Banking declined to EUR 2,113 million in 2018 compared with EUR 2,509 million in 2017. The adjustment of the EU ‘IAS 39 carve-out’, included in the net result, decreased to EUR 58 million in 2018, from EUR 559 million in 2017, due to fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly a result of changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB. The underlying net result, which excludes the adjustment of the EU ‘IAS 39 carve-out’, rose to EUR 2,055 million from EUR 1,950 million in 2017. This increase was primarily due to a lower effective tax rate supported by the impact of the corporate tax reforms in Belgium and the US. There were no special items in 2018 and 2017.

The underlying result before tax was EUR 2,755 million, down 3.2% from 2017, as higher results in Industry Lending were more than offset by lower results in Financial Markets and Bank Treasury & Other.

Industry Lending posted an underlying result before tax of EUR 2,091 million, up 6.4% compared with 2017, primarily due to volume growth, partly offset by some pressure on margins. The 2018 result furthermore included a EUR 66 million gain related to an equity-linked bond in Belgium. The underlying result before tax from General Lending & Transaction Services remained unchanged at EUR 751 million. Higher income, supported by volume growth in General Lending and the inclusion of Payvision as from the second quarter of 2018, was offset by increased expenses (partly due to payment innovation initiatives and higher regulatory costs) and slightly higher risk costs.

Financial Markets recorded an underlying result before tax of EUR -40 million compared with EUR 82 million in 2017. The drop in result was caused by lower income, which was impacted by lower client activity and challenging global market conditions, partly offset by a modest decline in expenses. The underlying result before tax of Bank Treasury

& Other fell to a loss of EUR 47 million compared with a gain of EUR 47 million in 2017. This was mainly due to lower results in the run-off businesses (including a EUR 123 million loss recorded in the fourth quarter of 2018 on the intended sale of an Italian lease run-off portfolio, while 2017 included a EUR 97 million gain on the sale of an equity stake in the real estate run-off portfolio), partly offset by lower expenses for litigation issues.

Total underlying income of Wholesale Banking fell 2.4% to EUR 5,781 million compared with 2017, mainly reflecting lower revenues in Financial Markets and the loss on the intended sale of an Italian lease run-off portfolio. Wholesale Banking's net core lending book (adjusted for currency impacts, and excluding Bank Treasury and the Lease run-off portfolio) grew by EUR 14.5 billion in 2018. Net customer deposits (excluding currency impacts and Bank Treasury) shrank by EUR 0.8 billion. The interest result rose 1.3% on 2017, whereas net fee and commission income increased 4.8% (supported by the inclusion of Payvision). Investment and other income fell by EUR 246 million; this was almost fully attributable to the aforementioned one-off results in the lease and real estate run-off businesses.

Underlying operating expenses increased 1.2% to EUR 2,826 million due to higher regulatory costs. Expenses excluding regulatory costs were stable, mainly reflecting lower performance-related expenses and strict cost control, and despite the inclusion of Payvision. The underlying cost/income ratio increased to 48.9% from 47.1% in 2017. Risk costs declined to EUR 200 million, or 13 basis points of average risk-weighted assets, from EUR 284 million, or 19 basis points in 2017. The relatively low risk costs in 2018 were supported by several larger net releases for clients and only a few larger new additions. On top of that, risk costs for the Italian lease run-off portfolio were significantly lower than in the previous year.

Year ended 31 December 2017 compared to year ended 31 December 2016

Net result of Wholesale Banking rose to EUR 2,509 million in 2017 compared with EUR 2,078 million in 2016. The 2016 net result included EUR -149 million in special items after tax related to the digital transformation programmes as announced in October 2016. The adjustment of the EU 'IAS 39 carve-out', included in the net result, increased to EUR 559 million in 2017 from EUR 324 million in 2016, due to fair value changes on derivatives (including a negative impact under net interest income of ending certain hedge relationships) related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly a result of changes in market interest rates. No hedge accounting is applied to these derivatives under IFRS-IASB. Underlying net result, which excludes special items and the adjustment of the EU 'IAS 39 carve-out', increased to EUR 1,950 million from EUR 1,903 million. The underlying effective tax rate rose to 31.0% from 28.2% in 2016, partly caused by the impact of tax reforms in the US and Belgium, which resulted in a tax charge to record a reduction in deferred tax assets.

Wholesale Banking's underlying result before tax was EUR 2,846 million in 2017, up 6.7% from 2016, driven by income growth in Industry Lending and General Lending & Transaction Services, and lower risk costs. This was in part offset by higher expenses.

Industry Lending posted an underlying result before tax of EUR 1,966 million, up 13.2% compared with 2016, due to continued business growth in Structured Finance and Real Estate Finance at attractive margins, higher fee income and lower risk costs. The underlying result before tax from General Lending & Transaction Services rose 22.5% to EUR 751 million, due to higher income and lower risk costs. Income was supported by volume growth in Working Capital Solutions and General Lending, partly offset by some pressure on margins. Financial Markets' underlying result before tax fell to EUR 82 million from EUR 134 million in 2016. This decline was mainly due to higher expenses, in part due to higher regulatory costs and investments in IT infrastructure. Income was stable, despite a very weak fourth quarter in 2017. Excluding CVA/DVA impacts (EUR -36 million in 2017 versus EUR -71 million in 2016) income declined by EUR 34 million. The underlying result before tax of Bank Treasury & Other fell to EUR 47 million from EUR 185 million in 2016. In addition to lower Bank Treasury results, this decline was mainly caused by higher risk costs (primarily related to the Italian lease run-off portfolio) and some litigation provisions. This was partly offset by higher sale results in the run-off businesses, including a EUR 97 million gain on the sale of an equity stake in the real estate run-off portfolio.

Underlying income of Wholesale Banking increased 5.6% to EUR 5,922 million, compared with 2016, driven by volume growth in lending and the aforementioned gain on the sale of an equity stake. Wholesale Banking's net core lending book (adjusted for currency impacts and excluding Bank Treasury and the Lease run-off portfolio) grew by EUR 12.7 billion in 2017. The net inflow in customer deposits (excluding currency impacts and Bank Treasury) was EUR 1.1 billion. The interest result rose 3.9% on 2016, whereas commission income increased by 10.5%. Investment and other income was EUR 64 million higher, driven by the gain on the sale of an equity stake.

Underlying operating expenses increased 8.6% to EUR 2,792 million, mainly due to higher headcount to support business growth, increased additions to litigation provisions and higher regulatory costs. Risk costs declined to EUR 284 million, or 19 basis points of average risk-weighted assets, from EUR 368 million, or 24 basis points in 2016. The relatively low risk costs in 2017 were supported by several larger net releases for clients and only a few larger new additions, and was realized despite higher risk costs for the Italian lease run-off portfolio.

B. Liquidity and capital resources

Consolidated assets and liabilities

The following table sets forth ING Group's condensed consolidated assets and liabilities as of 31 December 2018 and and 1 January 2018 (after the adoption of IFRS 9). Reference is made to the consolidated statement of financial position for the complete overview of consolidated assets and liabilities of ING Group.

Amounts in billions of euros	**12/31/2018**	**1/1/2018**
Cash and balances with central banks	50.0	22.0
Loans and advances to banks	30.4	28.7
Financial assets as at fair value through profit or loss	120.5	128.2
Financial assets at fair value through other comprehensive income	31.2	37.6
Securities at amortised cost	47.3	48.5
Loans and advances to customers	589.7	562.8
Other assets	14.3	14.9
Assets held for sale	1.3	
Total assets	**884.6**	**842.8**
Deposits from banks	37.3	36.9
Customer deposits	555.7	539.8
Financial liabilities at fair value through profit or loss	92.7	89.4
Other liabilities	15.5	15.4
Debt securities in issue/subordinated loans	133.5	113.0
Total liabilities	**834.8**	**794.7**
Shareholders' equity	49.0	47.4
Non-controlling interests	0.8	0.7
Total equity	**49.9**	**48.1**
Total liabilities and equity	**884.6**	**842.8**
Shareholders' equity per Ordinary Share (in EUR)	12.61	12.47

Year ended 31 December 2018 compared to opening balance 1 January 2018

ING Group increased its total assets by EUR 42 billion or 5.0%, to EUR 885 billion at year-end 2018 from EUR 843 billion on 1 January 2018. Made comparable for EUR 1 billion of negative currency impacts, (lowering the 1 January 2018 amount due to a relative decrease of other currencies versus the euro) the increase was EUR 43 billion.

The balance sheet increase was mainly due to EUR 28 billion higher cash and balances with central banks, related to active liquidity management, and EUR 27 billion increased loans and advances to customers. These increases were partly offset by EUR 8 billion lower financial assets at fair value through profit or loss and a EUR 6 billion reduction in financial assets through other comprehensive income (OCI).

The higher loans and advances to customers was due to the growth of net core customer lending by EUR 37 billion which was partly offset by a reduction in non-core customer lending due to a EUR 6 billion decrease in Bank Treasury lending and a EUR 3 billion decline of the WUB and Lease run-off portfolios. The latter included a reclassification of EUR 1 billion to assets held for sale, following the intended sale of an Italian lease run-off portfolio.

ING Group increased its debt securities in issue and subordinated debt by EUR 20 billion, of which EUR 15 billion certificates of deposit and commercial paper which were related to liquidity management and the facilitation of short-term commercial activities. Customer deposits increased by EUR 16 billion, of which EUR 19 billion was driven by net growth, excluding currency impacts and Bank Treasury. Financial liabilities at fair value through profit or loss were EUR 3 billion higher, mainly due to EUR 11 billion higher financial liabilities designated at FV PL, partly offset by EUR 7 billion lower trading liabilities.

Shareholders' equity increased by EUR 1.6 billion to EUR 49.0 billion at the end of 2018, from EUR 47.4 billion on 1 January 2018. The increase was mainly due to the net result for the year 2018 of EUR 4.7 billion, which was partly offset by EUR 2.6 billion dividend payments and EUR 0.5 billion lower unrealised revaluations of equity securities.

Capital Management

ING Groep N.V. is a holding company whose principal asset is its investments in the capital stock of ING Bank, its primary banking subsidiary. The liquidity and capital resource considerations for ING Groep N.V. and ING Bank vary in light of the business conducted by each, as well as the regulatory requirements applicable to the Group in the Netherlands and the other countries in which it does business. ING Groep N.V. has no employees and substantially all of ING Groep N.V.'s operating expenses are allocated to and paid by its operating companies.

We believe that our working capital is sufficient for our present requirements.

Capital developments at ING Group

After assessment of the impact of Basel IV and IFRS 9 on ING's capital and earnings, we have set ING Group's CET1 and ROE ambitions. The underlying ROE ambition of 10-12% applies to the current average IFRS-EU shareholder's equity, excluding interim profit, which is not included in CET1 capital. As of December 2018, our CET1 ratio of 14.5% was above our new CET1 ratio ambition of around 13.5% and SREP requirement of 11.8%, while our annual underlying ROE was within our ambition of 10-12%, at 11.2%.

The capital position remained strong in 2018, resulting from profitable and growing operations, complemented by increased optimisation of the capital structure. ING has sufficient buffers to withstand certain adverse scenarios without breaching applicable requirements, at both the consolidated and subsidiary level. ING is confident this position will allow us to continue to successfully execute our Think Forward strategy, support business growth and maintain our dividend policy.

ING Group's fully-loaded CET1 ratio was 14.5% at the end of 2018. The proposed dividend, to be paid in April 2019, has already been excluded from ING Group's capital base, in line with regulatory requirements. The Group's phased-in CET1 ratio at the end of the year decreased by 0.2% point from the previous year to 14.5%, as risk-weighted assets increased due to volume growth and model updates, slightly offset by positive risk migration. The available CET1 capital decreased slightly by EUR 0.1 billion compared with year-end 2017. The inclusion of interim profit after dividend reserving was more than offset by negative impacts, mainly due to IFRS9 implementation and related to Payvision acquisition.

The phased-in and fully-loaded Group Tier 1 ratio (including grandfathered securities) are at the same level of 16.2%, as of 31 December 2018. Compared with previous year, the phased-in and fully-loaded total capital ratio (including grandfathered securities) decreased from 18.5% to 18.4% and 19.1% to 18.4%, respectively. In 2018, ING Groep N.V. did not issue or redeem additional Tier 1 instruments. However a total of EUR 4.7 billion of ING Bank Tier 2 bonds were redeemed and a total of EUR 1.8 billion of Tier 2 bonds were issued by ING Groep N.V.

The leverage ratio of ING Group according to the Delegated Act (including grandfathered securities) takes into account the impact of grossing up the notional cash-pooling activities. The leverage ratio on 31 December 2018 was 4.4% versus 4.7% on 31 December 2017.

For further information regarding capital management, reference is made to Note 54 " Capital Management" to the consolidated financial statements. In addition to the restrictions in respect of minimum capital and capital base requirements that are imposed by banking and other regulators in the countries in which ING Groep N.V.'s subsidiaries operate, other limitations exist in certain countries. For further information, reference is made to Item 3. Key Information - Risk Factors" and "Item 4. Information on the Company – Regulation and Supervision."

Funding and liquidity

The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to fund ING's commercial activities under normal market circumstances and in times of stress across geographies, maturities and currencies. This requires a diversified funding structure, taking into consideration all relevant opportunities and constraints.

ING has a Funding & Liquidity (F&L) Framework which aims to maintain sufficient liquidity under normal, adverse and stressed market circumstances. In general, ING considers the adequacy of its F&L position through three main lenses: (i) Stress; (ii) Sustainability and (iii) Regulatory. For each lens, ING has a set of risk appetite statements that underscore the bank's risk appetite profile commensurate with the principles for liquidity adequacy. These risk appetite statements are subsequently translated into a number of metrics with appropriate boundaries and instruments to measure and manage ING's F&L adequacy.

ING's funding consists mainly of retail and corporate deposits, contributing 50% and 21% of the total funding at year-end 2018, respectively. These funding sources provide a relatively stable funding base. The remainder of the required funding is attracted by Group Treasury through long-term and short-term professional funding. Group Treasury manages the professional funding in line with risk appetite, ensuring sufficiently diversified and stable funding.

In 2018, customer lending growth outpaced customer deposit growth. As a result, the reliance on professional funding activities increased. As the share of customer deposits continued to provide an excess of stable funding, the additional lending growth was funded through short-term Certificates of Deposit and Commercial Paper (CD/CP) issuance.

For further information regarding funding and liquidity, see Note 53 "Risk Management" to the consolidated financial statements.

At 31 December 2018, 2017 and 2016, ING Groep N.V. had EUR nil, EUR nil and EUR nil of cash, respectively. Dividends paid to the Company by its subsidiaries amounted to EUR 2,517 million, EUR 3,182 million and EUR 1,354 million in 2018, 2017 and 2016, respectively, in each case representing dividends paid with respect to the reporting calendar year and the prior calendar year. The amounts paid to ING Groep N.V. were received from ING Bank, EUR 2,517 million in 2018, EUR 3,176 million in 2017 and EUR 1,345 million in 2016, from ING Support Holding, EUR nil in 2018, EUR 6 million in 2017 and 9 million in 2016.

As a holding company, ING Groep N.V.'s total debt and capital securities outstanding to third parties at 31 December 2018 was EUR 27,901 million, 31 December 2017 was EUR 14,187 million and at 31 December 2016 was EUR 10,528 million. The EUR 27,901 million of debt and capital securities outstanding at 31 December 2018 consisted of subordinated loans of EUR 10,468 million and debenture loans of EUR 17,433 million, both specified below:

Subordinated loans

Amounts in millions of euros			Statement of financial position value
Interest rate	**Year of issue**	**Due date**	**2018**
4.70%	2018	22 March 2028	1,098
2.00%	2018	22 March 2030	747
1.63%	2017	26 September 2029	990
4.00%	2017	14 September 2032	88
4.25%	2017	23 June 2032	143
1.15%	2017	14 June 2029	95
1.10%	2017	31 May 2027	80
3.00%	2017	11 April 2028	1,069
2.50%	2017	15 February 2029	758
6.88%	2016	Perpetual	882
6.50%	2015	Perpetual	1,101
6.00%	2015	Perpetual	883
9.00%	2008	Perpetual	10
6.38%	2007	Perpetual	915
6.13%	2005	Perpetual	619
Variable	2004	Perpetual	557
Variable	2003	Perpetual	431
			10,468

Debenture loans

Amounts in millions of euros

Interest rate Year of issue Due date	**Year of Issue**	**Due date**	**2018**
3.399%	2018	28 December 2030	67
1.169%	2018	13 December 2028	152
0.848%	2018	13 December 2023	852
3.790%	2018	13 December 2030	151
5.000%	2018	5 June 2029	105
variable	2018	5 December 2022	244
2.500%	2018	15 November 2030	1,478
4.625%	2018	6 January 2026	1,075
4.100%	2018	2 October 2023	1,307
4.550%	2018	2 October 2028	1,084
variable	2018	2 October 2023	426
2.000%	2018	20 September 2028	1,473
variable	2018	20 September 2023	973
1.000%	2018	20 September 2023	970
1.125%	2018	14 February 2025	979
3.950%	2017	29 March 2027	1,318
3.150%	2017	29 March 2022	1,317
variable	2017	29 March 2022	859
0.750%	2017	9 March 2022	1,454
1.375%	2017	11 January 2028	985
4.699%	2007	1 June 2035	163
			17,433

At 31 December 2018 and 2017, ING Groep N.V. also owed EUR 136 million and EUR 367 million, respectively, to ING Group companies pursuant to intercompany lending arrangements. At 31 December 2018 ING Group Companies owed ING Group N.V. EUR 34,902 million, as a result of normal intercompany transactions.

On the maturity profile of borrowings and a further description of the borrowings reference is made to Notes 18 'Debt securities in issue' and 19 'Subordinated Loans' in Note 2.1 to the consolidated financial statements. The use of financial instruments for hedging purposes is described in Note 40 'Derivatives and hedge accounting' in Note 2.1 to the consolidated financial statements, reference is made to that note.

ING Group Consolidated Cash Flows

Year ended 31 December 2018 compared to year ended 31 December 2017

Net cash flow from operating activities amounted to EUR 6,915 million for the year ended 31 December 2018, compared to EUR -5,253 million at year-end 2017. The increase in cash flow from operating activities of EUR 12,168 million was due to higher cash inflows from net trading balances, EUR 21,097 million (2018; EUR 9,910 million, 2017 EUR –11,187 million), higher cash inflows from Customer deposits EUR 1,418 million (2018 EUR 19,709 million, 2017

EUR 18,291 million) and a higher cash inflow from Other EUR 6,521 million (2018 EUR 4,067 million, 2017 EUR -1,751). These higher cash inflows are partly offset by an increase in cash outflows from loans and advances of EUR 9,966 (2018 EUR -31,356 million, 2017 EUR -21,390).

Net cash flow from operating activities was largely affected by the cash inflow from a decrease of the trading assets. The cash inflow was due to lower trading balances consisting of equity securities, debt securities, trading derivatives and loans and receivables. In 2017 the cash outflow to trading assets was due to higher trading balances consisting of loans and receivables and equity shares. The cash inflows related to increased customer deposits and are mainly due to increased savings individuals and credit balances on customer accounts, this net cash inflow was in line with 2017. Newly issued mortgage loans, corporate lending and personal lending led to a cash outflow which was partly offset by a decrease in loans to public authorities.

Net cash flow from investing activities amounted EUR 5,451 million, from EUR 11,754 million in 2017. Investments and advances in financial assets at fair value through other comprehensive income and securities at amortised cost amounted to EUR -10,517 million and EUR -17,985 million respectively as in 2017 the investments in available-for-sale securities and Held-to-maturity investments amounted EUR -21,601 and EUR -3,609 million respectively. Disposals and redemptions of financial assets at fair value through other comprehensive income and securities at amortised cost amounted to EUR 15,657 million and EUR 18,709 million respectively as in 2017 the Disposals and redemptions of in available-for-sale securities Held-to-maturity investments amounted EUR 32,788 million and EUR 2,675 million respectively.

Net cash flow from financing activities amounted EUR 15,983 million in 2018, compared to EUR -3,948 million in 2017. The increase of EUR 19,931 million in net cash flow is mainly due higher proceeds of debt securities.

The operating, investing and financing activities described above resulted in an increase of EUR 28,552 million in cash and cash equivalents from EUR 18,977 million at year-end 2017 to EUR 47,529 million at year end 2018.

Specification of cash position:

Amounts in millions of euros	**2018**	**2017**
Treasury bills and other eligible bills	159	391
Amounts due from/to banks	–2,617	–3,403
Cash and balances with central banks	49,987	21,989
Cash and cash equivalents at end of year	**47,529**	**18,977**

Year ended 31 December 2017 compared to year ended 31 December 2016

Net cash flow from operating activities amounted to EUR –5,253 million for the year ended 31 December 2017, compared to EUR 8,553 million at year-end 2016. The decrease in cash flow from operating activities of EUR 13,806 million was due to higher cash outflows from net trading balances, EUR -22,509 million (2017; EUR –11,187 million, 2016 EUR 11,322 million), and higher cash outflows re non-trading derivatives of EUR -4,051 (2017 EUR -2,239 million, 2016 EUR 1,812 million). These higher cash outflows are partly offset by a decrease in cash outflows from loans and advances of EUR 8,266 (2017 EUR -21,390 million, 2016 EUR -29,656) and lower cash outflows from financial assets and liabilities at fair value through profit or loss EUR 3,709 million (2017 EUR -124 million, 2016 EUR -3,833 million).

Cash inflows increased due to a decrease of net positions with banks EUR 4,698 million (2017 EUR 3,194 million, 2016 EUR -1,504 million) and an increase in profit before tax EUR 1,332 million (2017 EUR 8,085 million, 2016 EUR 6,753 million). These increases of cash inflows were offset by decreases in cash inflows due to lower cash inflows from customer deposits EUR –5,202 million (2017 EUR 18,291 million, 2016 EUR 23,493 million).

Net cash flow from operating activities was largely affected by the cash outflow from newly issued mortgage loans, corporate lending and personal lending. The cash outflow to trading assets was due to higher trading balances consisting of loans and receivables and equity shares. Cash inflows relate to increased customer deposits and are mainly due to increased savings individuals and credit balances on customer accounts, decreased net positions from and to other banks and net income results. In 2016 there was a large cash outflow from loans and advances to customers and a large cash inflow from trading assets. The strong cash inflow from trading assets in 2016 is related to a combination of fewer equity securities required to hedge equity swaps, fewer trading government bonds and a decrease in reverse repurchase activities.

Net cash flow from investing activities amounted to EUR 11,754 million, from EUR 6,134 million in 2016. Investments in available-for-sale securities amounted EUR 21,601 million and EUR 27,003 million in 2017 and 2016, respectively. Disposals and redemptions of available-for-sale securities amounted to EUR 32,788 million and EUR 32,540 million in 2017 and 2016, respectively.

Net cash flow from financing activities amounted EUR -3,948 million in 2017, compared to EUR -19,057 million in 2016. The decrease of EUR 15,109 million in net cash flow is mainly due lower repayments of debt securities.

The operating, investing and financing activities described above resulted in an increase of EUR 2,813 million in cash and cash equivalents from EUR 16,164 million at year-end 2016 to EUR 18,977 million at year end 2017.

Specification of cash position:

Amounts in millions of euros	**2017**	**2016**
Treasury bills and other eligible bills	391	512
Amounts due from/to banks	–3,403	–2,492
Cash and balances with central banks	21,989	18,144
Cash and cash equivalents at end of year	**18,977**	**16,164**

Sovereign Debt Exposures

For information regarding certain sovereign debt exposures, see Note 5 “Financial assets at fair value through other comprehensive income” of Note 2.1.2 and Note 53 “Risk Management” to the consolidated financial statements.

C. Research and development, patents and licenses, etc.

Not applicable.

D. Trend information

For information regarding trend information, see Item 5.A of this Form 20-F.

E. Off-balance sheet arrangements

For information regarding off-balance sheet arrangements, see Note 46 ‘Contingent liabilities and commitments’ of Note 2.1 to the consolidated financial statements and see Note 53 “Risk Management” to the consolidated financial statements.

F. Tabular disclosure of contractual obligations

For information about future payments in relation to pension benefit liabilities reference is made to Note 37 'Pension and other post-employment benefits' in Note 2.1 to the consolidated financial statements. For information about coupon interest due on financial liabilities by maturity bucket reference is made to Note 42 'Liabilities by maturity' in Note 2.1 to the consolidated financial statements. For information on future rental commitments reference is made to Note 46 'Contingent liabilities and commitments' in Note 2.1 to the consolidated financial statements. For information on securitization arrangements and structured entity details reference is made to Note 50 'Structured entities' in Note 2.1 to the consolidated financial statements.

Contractual obligations

		Payment due by period		
		Less than		More than
Amounts in millions of euros	**Total**	**one year**	**1-5 years**	**5 years**
2018				
Operating lease obligations	1,376	259	719	398
Subordinated loans	13,549		1,713	11,836 [1]
Debt securities in issue	117,790	55,309	41,068	21,413
Total	**132,715**	**55,568**	**43,500**	**33,647**
2017				
Operating lease obligations	1,252	268	628	356
Subordinated loans	15,777			15,777 [1]
Debt securities in issue	94,353	44,387	37,717	12,249
Total	**112,457**	**44,392**	**38,512**	**29,553**

[1] The maturity bucket ' more than 5 years' includes subordinated loans of EUR 5,339 million (2017: EUR 5,176) with no maturity date (perpetual).

Item 6. Directors, Senior Management and Employees

A. Directors and senior management

Supervisory Board

Appointment, suspension and dismissal

Members of the Supervisory Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Supervisory Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting.

A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Supervisory Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. This ensures that significant proposals of shareholders cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group’s shareholders.

Candidates for appointment to the Supervisory Board must comply with the suitability and reliability requirements as set out in the Dutch Financial Supervision Act and must continue to meet these while in function.

Function of the Supervisory Board

The function of the Supervisory Board is to supervise the policy of the Executive Board and the general course of affairs of ING Group and its business, as well as to provide advice to the Executive Board.

In line with Dutch company law, the Articles of Association, the Dutch Corporate Governance Code as well as the Supervisory Board Charter, all members of the Supervisory Board are required to:

• act in accordance with the interests of ING Group and the business connected with it, taking into account the relevant interests of all stakeholders of ING Group;

• perform their duties without mandate and independent of any interest in the business of ING Group; and

• refrain from supporting one interest without regard to the other interests involved.

According to the Banker’s Oath that was taken by the members of the Supervisory Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer’s interests at the centre of all their activities. Certain resolutions of the Executive Board, specified in the Articles of Association, in the Executive Board Charter and in the Supervisory Board Charter, are subject to approval of the Supervisory Board.

ING Group indemnifies the members of the Supervisory Board against direct financial losses in connection with claims from third parties as far as permitted by law on the conditions laid down in the Articles of Association and an indemnity statement. ING Group has taken out liability insurance for the members of the Supervisory Board.

Profile of members of the Supervisory Board

The Supervisory Board has drawn up a profile to be used as a basis for its composition. It is available on the website of ING Group (www.ing.com).

In view of their experience and the valuable contribution that former members of the Executive Board can make to the Supervisory Board, it has been decided, taking into account the size of the Supervisory Board and ING's wide range of activities that such individuals may become members of the Supervisory Board of ING Group. Former Executive Board members must wait at least one year before becoming eligible for appointment to the Supervisory Board.

Former members of the Executive Board are not eligible for appointment to the position of chairman or vice-chairman of the Supervisory Board.

After a former member of the Executive Board has been appointed to the Supervisory Board, this member may also be appointed to one of the Supervisory Board's committees. However, appointment to the Audit Committee is only possible if the individual in question resigned from the Executive Board at least three years prior to such appointment.

The Supervisory Board of ING shall consist of a mix of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in the political and social environment in which such companies operate. In the selection of Supervisory Board members, ING is striving for a balance in nationality, gender, age, and educational and work background. In addition, there should be a balance in the experience and affinity with the nature and culture of the business of ING and its subsidiaries. More specifically ING strives to have at least 30 percent of the seats held by women, and at least 30 percent of the seats by men. These guidelines that relate to the composition of the Supervisory Board, are laid down in the Supervisory Board Profile. Based on this profile, the Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Supervisory Board.

With respect to gender diversity, another female member (Margarete Haase) was appointed as a member of the Supervisory Board at the General Meeting of 2017 and per 1 October 2017 she has been present as an observer at the meetings of the Supervisory Board. Her appointment became effective on 1 May 2018. The percentage of females within the Supervisory Board in 2018 is 25%. Further measures are being taken to ensure, the preferred composition in terms of gender will be adhered to as soon as reasonably possible.

We believe that the Supervisory Board, diversity wise, is well balanced in terms of other relevant diversity aspects. Overall, the preferred emphasis on members with a financial or banking background has been maintained. In terms of nationality, the ratio between Dutch and non-Dutch nationals in 2018 was 50%-50%.

Other diversity related aspects are also taken into consideration in light of the overall SB composition.

Term of appointment of members of the Supervisory Board

As a general rule, Supervisory Board members step down from the Supervisory Board in the fourth, eighth, 10th and 12th year after their initial appointment. They are eligible for re-appointment in the fourth year after their initial appointment and, with explanation, also in the eighth and 10th year.

Under special circumstances the Supervisory Board may, with explanation, deviate from this general rule, for instance to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. The schedule for resignation by rotation is available on the website of ING Group (www.ing.com).

Ancillary positions/conflicting interests

Members of the Supervisory Board may hold other positions, including directorships, either paid or unpaid.

CRD IV restricts the total number of supervisory board positions or non-executive directorships with commercial organisations that may be held by a Supervisory Board member to four, or to two, if the Supervisory Board member also has an executive board position. The European Central Bank may, under special circumstances, permit a Supervisory Board member to fulfil an additional supervisory board position or non-executive directorship. Positions with, inter alia, subsidiaries or qualified holdings are not taken into account in the application of these restrictions. Such positions may not conflict with the interests of ING Group. It is the responsibility of the individual member of the Supervisory Board and the Supervisory Board to ensure that the directorship duties are performed properly and are not affected by any other positions that the individual may hold outside ING Group.

Members of the Supervisory Board are to disclose material conflicts of interest (including potential conflicts of interest) and to provide all relevant information relating to them. The Supervisory Board – without the member concerned taking part – then decides whether a conflict of interest exists.

In case of a conflict of interest, the relevant member of the Supervisory Board abstains from discussions and decision-making on the topic or the transaction in relation to which he or she has a conflict of interest with ING Group.

Transactions involving actual or potential conflicts of interest

In accordance with the Dutch Corporate Governance Code, transactions involving members of the Supervisory Board in which there are material conflicting interests are disclosed in the Annual Report.

Any relation that a member of the Supervisory Board may have with ING Group subsidiaries as an ordinary, private individual is not considered a significant conflict of interest. Such relationships are not reported, with the exception of any loans that may have been granted.

For an overview of loans granted to members of the Supervisory Board, see the ‘Remuneration report’ chapter.

Independence

The members of the Supervisory Board are requested to assess annually whether the criteria of dependence set out in the Dutch Corporate Governance Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, with the exception of Eric Boyer de la Giroday, are to be regarded as independent on 31 December 2018. Eric Boyer de la Giroday is not considered independent because of his former position as Chairman of the Board of Directors of ING Belgium S.A./N.V. and his former positions as member of the Executive Board of ING Group and vice-chairman of the Management Board Banking of ING Bank N.V. On the basis of the NYSE listing standards, all members of the Supervisory Board are independent.

Permanent Committees of the Supervisory Board

On 31 December 2018, the Supervisory Board had four permanent committees: the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. An organisational chart of the four permanent committees of the Supervisory Board can be found above.

The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter that can be found on www.ing.com.

Separate charters have been drawn up for the Risk Committee, the Audit Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee. These charters are available on the website of ING Group (www.ing.com). A short description of the duties of the four permanent committees follows below.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of ING as a whole as well as on the structure and operation of the internal risk management and control systems. On 31 December 2018, the members of the Risk Committee were: Robert Reibestein (chairman), Eric Boyer de la Giroday, Jan Peter Balkenende Mariana Gheorghe and Hermann-Josef Lamberti.

The Audit Committee assists and advises the Supervisory Board in monitoring the integrity of the financial statements of ING Group, and ING Bank N.V., in monitoring compliance with legal and regulatory requirements and in monitoring the independence and performance of ING Group's internal and external auditors. On 31 December 2018, the members of the Audit Committee were: Hermann-Josef Lamberti (chairman), Eric Boyer de la Giroday, Margarete Haase, Robert Reibestein and Hans Wijers.

The appointment of Margarete Haase as supervisory board member became effective as per 1 May 2018 (as decided by the Supervisory Board in January 2018) and per that date Margarete Haase is considered a financial expert as defined by the SEC in its final rules implementing Section 407 of the Sarbanes-Oxley Act of 2002.

Eric Boyer de la Giroday is a financial expert as defined in the Dutch Corporate Governance Code considering his academic background as well as his knowledge and experience in his previous role as board member and vice-chairman of ING Groep N.V. and ING Bank N.V.

The Nomination and Corporate Governance Committee's tasks include advising the Supervisory Board on the composition of the Executive Board and Supervisory Board and assisting the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting thereon in the Annual Report and to the General Meeting, and advising the Supervisory Board on improvements. On 31 December 2018, the members of the Nomination and Corporate Governance Committee were: Hans Wijers (chairman), Henk Breukink and Mariana Gheorghe.

The Remuneration Committee's tasks include advising the Supervisory Board on the terms and conditions of employment (including remuneration) of the members of the Executive Board and on the policies and general principles on which the terms and conditions of employment of the members of the Executive Board and of senior managers of ING Group and its subsidiaries are based. On 31 December 2018 the members of the Remuneration Committee were: Henk Breukink (chairman), Robert Reibestein and Hans Wijers.

The composition of the Supervisory Board Committees can be found on ING Group's website www.ing.com.

Company secretary

The Supervisory Board is assisted by the company secretary Cindy van Eldert-Klep.

Remuneration and share ownership

Remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of remuneration are provided in the Remuneration report. Members of the Supervisory Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Supervisory Board in these shares are subject to the ING regulations for insiders.

ING regulations regarding insiders are available on the website of ING Group www.ing.com.

Information on members of the Supervisory Board

G.J. (Hans) Wijers (Chairman)

(Born 1951, Dutch nationality, male, appointed in 2017, term expires in 2021)

Former position: chief executive officer and member of the Executive Board of AkzoNobel N.V.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., chairman of the Supervisory Board and chairman of the Preparatory Committee and Selection & Appointment Committee of Heineken N.V. and member of the Supervisory Board of Hal Investments Plc.

Other relevant ancillary positions

Chairman of the Supervisory Board of Het Concertgebouw N.V., chairman of the board of Vereniging Natuurmonumenten (the Netherlands) and member of the Temasek European Advisory Panel of Temasek Holdings Private Limited.

H.J.M. (Hermann-Josef) Lamberti (Vice-Chairman)

(Born 1956, German nationality, male; appointed in 2013, term expires in 2021)

Former position: chief operating officer of Deutsche Bank AG.

Relevant positions pursuant to CRD IV

Vice-chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V., non-executive member of the Board of Directors of Airbus Group N.V., chairman of the Supervisory Board of Addiko Bank (including senior business adviser of Advent International GmBH) and director of Frankfurt Technology Management GmbH.

The ECB has authorised Hermann-Josef Lamberti to hold a third non-executive position i.e. in deviation of the maximum of two provided for in section 91 of CRD IV.

J.P. (Jan Peter) Balkenende

(Born 1956, Dutch nationality, male; appointed in 2017, term expires in 2021)

Former position: partner EY (on corporate responsibility).

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V.

Other relevant ancillary positions

Professor of governance, institutions and internationalisation at Erasmus University Rotterdam (the Netherlands), external senior adviser to EY, member of the Supervisory Board of Goldschmeding Foundation, chairman of the Board of Maatschappelijke Alliantie (the Netherlands) and chairman of the Board of Noaber Foundation.

E.F.C.B. (Eric) Boyer de la Giroday

(Born 1952, Belgian nationality, male: appointed in 2014, term expires in 2022)

Former position: member of the Executive Board of ING Groep N.V. and ING Bank N.V.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and non-executive chairman of the Board of Directors of ING Belgium S.A./N.V.

Other relevant ancillary position

Non-executive director of the board of directors of the Instituts Internationaux de Physique et de Chimie fondés par Ernest Solvay, asbl.

H.W. (Henk) Breukink

(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2019)

Former position: managing director of F&C and country head for F&C Netherlands (asset management firm).

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., non-executive director of Brink Groep B.V. and executive director of Executive Development Dialogue B.V.

M. (Mariana) Gheorghe

(Born 1956, Romanian nationality, female, appointed in 2015, term expires in 2019)

Former position: CEO of OMV Petrom SA.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V.

M. (Margarete) Haase

(Born 1953, Austrian nationality, female; appointed in 2017, term expires in 2021)

Former position: CFO of Deutz AG.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. (effective per 1 May 2018), member of the Supervisory Board and chairwoman of the Audit Committee of Fraport AG, member of the Supervisory Board and chairwoman of the Audit Committee of Osram Licht AG and member of the Supervisory Board and chairwoman of the Audit Committee of Marquard & Bahls AG.

Other relevant ancillary positions

Chairwoman of the Employers Association of Kölnmetall and member of the German Corporate Governance Commission.

R.W.P. (Robert) Reibestein

(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2021)

Former position: senior partner of McKinsey & Company.

Relevant positions pursuant to CRD IV

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and member of the Supervisory Board of IMC B.V.

Other relevant ancillary position

Member of the Supervisory Board of Stichting World Wildlife Fund (the Netherlands).

Changes in the composition

Jeroen van der Veer resigned from the Supervisory Board. As chairman, he was succeeded by Hans Wijers.

Executive Board

Appointment, suspension and dismissal

Members of the Executive Board are appointed, suspended and dismissed by the General Meeting. For the appointment of Executive Board members, the Supervisory Board may draw up a binding list, which may be rendered non-binding by the General Meeting. A resolution of the General Meeting to render this list non-binding, or to suspend or dismiss Executive Board members without this being proposed by the Supervisory Board, requires an absolute majority of the votes cast. Additionally, this majority must represent more than half of the issued share capital. The Articles of Association exclude the waiver of the latter requirement in a second General Meeting. This ensures that significant proposals of shareholders cannot be adopted in a General Meeting with a low attendance rate and can only be adopted with substantial support of ING Group’s shareholders.

Candidates for appointment to the Executive Board must comply with the suitability and reliability requirements as set out in the Dutch Financial Supervision Act and must continue to meet these while in function.

Function of the Executive Board

The Executive Board is charged with the management of ING Group. This includes responsibility for setting and achieving ING Group’s strategy, objectives and policies, as well as the ensuing delivery of results. It also includes the day-to-day management of ING Group. The Executive Board is accountable for the performance of these duties to the Supervisory Board and the General Meeting. The responsibility for the management of ING Group is vested in the Executive Board collectively. The organisation, powers and modus operandi of the Executive Board are detailed in the Executive Board Charter.

The Executive Board Charter is available at www.ing.com.

According to the Banker’s Oath that is taken by the members of the Executive Board, they must carefully consider the interests of all stakeholders of ING. In that consideration they must put the customer’s interests at the centre of all their activities.

ING Group indemnifies the members of the Executive Board against direct financial losses in connection with claims from third parties, as far as permitted by law, on the conditions laid down in the Articles of Association and their commission contract. ING Group has taken out liability insurance for the members of the Executive Board.

Profile of members of the Executive Board

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board. It is available on the website of ING Group (www.ing. com).

ING Group aims to have an adequate and balanced composition of its Executive Board. The Supervisory Board annually assesses the composition of the Executive Board.

ING aims for the Executive Board of ING to consist of a diverse selection of persons with executive experience, preferably gained in the banking sector, experience in corporate governance of large stock-listed companies and experience in the political and social environment in which such companies operate. In addition, there should be a good balance in the experience and affinity with the desired nature and culture of the business of ING. ING strives to have at least 30 percent of the seats held by women, and at least 30 percent of the seats by men.

These guidelines that relate to the composition of the Executive Board, are laid down in the Executive Board Profile. Based on this profile, the Supervisory Board is responsible for selecting and nominating candidates for appointment or reappointment to the Executive Board.

Currently, there are no female members in the Executive Board, although that ambition of gender diversity remains unchanged. This remains a key topic for the Supervisory Board with respect to succession planning and future appointments to the Executive Board.

Remuneration and share ownership

Members of the Executive Board are permitted to hold shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com).

Details of the remuneration of members of the Executive Board, including shares granted to them, together with additional information, are provided in the 'Remuneration report'.

Ancillary positions/conflicting interests

No member of the Executive Board has corporate directorships at listed companies outside ING.

Transactions involving actual or potential conflicts of interest

In accordance with the Dutch Corporate Governance Code, transactions with members of the Executive Board in which there are significant conflicts of interest will be disclosed in the Annual Report.

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the aforementioned, the term loans does not include financial products in which the granting of credit is of a subordinated nature, e.g. credit cards and overdrafts in current account, because of a lack of materiality.

For an overview of loans granted to members of the Executive Board, reference is made to the 'Remuneration report'.

Information on members of the Executive Board

R.A.J.G. (Ralph) Hamers, Chief Executive Officer ('CEO')

(Born 1966, Dutch nationality, male; appointed in 2013, current term expires in 2021)

Ralph Hamers has been a member of the Executive Board of ING Group since 13 May 2013 and was appointed CEO and chairman of the Executive Board and the Managing Board Banking on 1 October 2013. He is responsible for the proper functioning of the Executive Board, the Management Board Banking and its committees, formulating and implementing ING's strategy and acting as main contact for the Supervisory Board. He is also responsible for the following departments: Innovation, Legal, Corporate Strategy, Corporate HR, Corporate Communications and Corporate Audit Services. He joined ING in 1991 and has held various positions including global head Wholesale Banking Network from 2007 to 2010, head of Network Management for Retail Banking Direct & International from 2010 to 2011, and CEO of ING Belgium and Luxembourg from 2011 to 2013. He holds a Master of Science degree in Business Econometrics/Operations Research from Tilburg University, the Netherlands.

Relevant positions pursuant to CRD IV

Chairman and CEO of the Executive Board of ING Groep N.V. and of the Management Board of ING Bank N.V.

Other relevant ancillary positions

Member of the Management Board of the Nederlandse Vereniging van Banken (NVB), member of the Board of Directors of the Institute of International Finance, Inc., non-executive member of the board of Foundation Royal Concertgebouw Orchestra Amsterdam and member of UNICEF's Global Board of the Young People's Agenda.

J.V. (Koos) Timmermans, Chief Financial Officer ('CFO')

(Born 1960, Dutch nationality, male; appointed in 2017, will step down as from 7 February 2019)

Koos Timmermans was a member of the Executive Board and CFO of ING Group since 8 May 2017. He also served as a member and CFO on the Management Board Banking. He was responsible for ING's financial strategy, including internal and external reporting, budgeting, procurement, forecasting, capital management, tax management, investor relations and business performance reporting and analysis, among which measuring adherence to financial targets. Furthermore he was responsible for Bank Treasury, Sustainability, and Regulatory & International Affairs. Before becoming CFO, he was head of Market Leaders, responsible for ING's operations in the Benelux, and between 2007 and 2011 he was CRO of ING Group. Before joining ING in 1996 he worked for IBM's European treasury in Ireland and ABN AMRO Bank in the area of financial markets. Koos Timmermans graduated from Erasmus University Rotterdam (the Netherlands) in 1986 with a master's degree in economics.

Relevant positions pursuant to CRD IV

Member and CFO of the Executive Board of ING Groep N.V., member, CFO and vice-chairman of the Management Board of ING Bank N.V., member of the Management Board of ING Support Holding B.V. and member of the Supervisory Board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ('FMO', Entrepreneurial Development Bank).

Other relevant ancillary positions

Member of the Supervisory Board Stadsherstel Amsterdam N.V. and member of the Supervisory Board of Amsterdam Institute of Finance

S.J.A. (Steven) van Rijswijk, Chief Risk Officer ('CRO')

(Born 1970, Dutch nationality, male; appointed in 2017, term expires in 2021)

Steven van Rijswijk has been a member of the Executive Board since 8 May 2017. He was appointed CRO on 1 August 2017. He is also a member and CRO of the Management Board Banking. Before becoming a member of the Executive Board, Steven van Rijswijk was global head of Client Coverage within ING Wholesale Banking. Steven van Rijswijk joined ING in 1995 in the Corporate Finance team holding various positions in the areas of Mergers & Acquisitions and Equity Markets. Steven van Rijswijk holds a master's degree in business economics from Erasmus University Rotterdam (the Netherlands).

Relevant positions pursuant to CRD IV

Member and CRO of the Executive Board of ING Groep N.V. and member and CRO of the Management Board of ING Bank N.V.

Changes in the composition

As announced on 4 December 2018, Tanate Phutrakul was appointed as CFO and member of the Management Board Banking, succeeding Koos Timmermans on 7 February 2019. The Supervisory Board will nominate Tanate Phutrakul for appointment as a member of the Executive Board of ING Group at the Annual General Meeting on 23 April 2019. The appointments have been approved by the European Central Bank ('ECB').

B. Compensation

Remuneration report

ING's global remuneration policy is designed to ensure that we offer well-balanced remuneration so we can recruit, engage and retain highly qualified staff as well as live up to our responsibilities towards our different stakeholders.

Our remuneration policy applies to all employees, including Executive Board members. Last year, the Supervisory Board prepared a proposal to amend the Executive Board remuneration policy to bring the remuneration for the CEO position closer to peers within the Euro Stoxx benchmark. The proposal consisted of fixed shares with an equal value to 50% of gross cash based salary. The shares had a five year retention period, and included a minimum shareholding requirement equal to one year's gross base salary plus fixed shares.

Subsequently, the ING Group Supervisory Board noted the reactions of various Dutch stakeholders following the proposal to amend the Executive Board remuneration policy. In light of this, the Supervisory Board reconsidered the proposal and decided not to put it up for a vote at the Annual General Meeting. The Supervisory Board is now performing an extensive review of ING's remuneration policy.

This comprehensive review will be performed by the Supervisory Board in consultation with its advisory bodies with significant emphasis on broad stakeholder engagement.

At the same time, the 2018 settlement agreement with the Dutch Public Prosecution Service also has consequences for remuneration. In the light of this settlement agreement, the members of the Executive Board of ING Group, in consultation with the Supervisory Board, find it appropriate to forego their variable remuneration related to performance year 2018.

Global remuneration policy ING

Our global remuneration policy comprises the following principles:

Aligned with business strategy ING's global remuneration policy is aligned with business strategy and company goals.
Long-term value creation ING's global remuneration policy contributes to the long-term value creation of the company and supports a focus on the long-term interests of its stakeholders, including staff, customers and shareholders.
Responsible and fair In line with our Orange Code values and behaviours, ING acts responsibly and treats staff fairly across the globe.
Mitigating risk and optimising controls Risk management is an enabler of long-term value creation. ING ensures its global remuneration policy is properly correlated with its risk profile and stakeholder interests.
Performance driven ING operates a robust performance management process linked to remuneration to steer and motivate all staff to deliver on ING's strategic goals, aiming to reward success and prevent rewarding for failure.
Sustainable ING supports the sustainable recruitment, engagement and retention of all staff.

Performance Management

Our remuneration approach is strongly linked to performance management. Outcomes of performance evaluations are a direct input for remuneration.

Step Up Performance Management is ING's global performance management approach. It aims to improve personal, and thereby ING's, performance by realising a real-time improvement practice. There are three formal moments: Priority Setting, Mid-Year Review and Year-End Evaluation. These are supported by an informal continuous conversation practice. Step Up Performance Management aims to increase focus, alignment and transparency.

The Step Up Performance Management framework consists of three dimensions:

- **Job**: the impact employees have in their daily role on an individual and team level, based on factors such as qualitative job description, dynamic planning and selected specific quantitative priorities (KPIs).

- **Orange Code Behaviours**: how employees work and how effective their behaviour is in line with the Orange Code behaviours.

- **Stretch Ambitions**: the achievement of our employees in terms of ambitions that significantly drive delivery of our strategy and build their own capabilities.

All priority setting is agreed between the employee and their manager, as well as between managers, to ensure consistency across the bank. The three dimensions are equally important and have the same weight in the evaluation.

Step Up Performance Management does not prescribe the priorities employees should set. However, there are some regulatory requirements:

- Maximum 50% financial priorities (only for staff eligible for variable remuneration). Objectives should take into account the interest of the customer.

- For employees in control functions (Legal, Risk, Finance, Compliance, Audit and HR), no individual financial KPIs are allowed, unless required by local law.

- Risk mitigation measures may lead to a downwards adjustment of the performance outcome and affect compensation in a negative manner.

Total direct compensation

Total direct compensation is the total of fixed and variable remuneration, excluding benefits such as pension and allowances.

ING aims to provide total direct compensation levels for expected business and individual performance which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups. To ensure we adhere to this policy, we regularly monitor and benchmark salary levels across ING looking at different countries.

Fixed remuneration represents a sufficiently high proportion of the total direct compensation, which is in line with the level of expertise and skills required.

The comprehensive process around variable remuneration

The awarding of variable remuneration, where applicable, is primarily focused on long-term value creation and based on individual, business line and bank-wide performance criteria.

In all countries where we operate, we adhere to the applicable variable remuneration caps. In the Netherlands this means for example that a variable remuneration cap of 20% applies with only a small number of exemptions in line with regulations.

For Identified Staff (i.e. staff that is considered to have a material impact on the risk profile of ING), at least 40% of variable remuneration is deferred over a period of three to five years with a tiered vesting schedule. Furthermore, a substantial part (50-100%) of variable remuneration is awarded in equity.

Risk mitigating measures

ING applies measures to mitigate risk relating to variable remuneration. Our global remuneration policy takes into consideration risk, capital, liquidity and the likelihood and timing of earnings. Measures include pre-award and post-award risk assessments of variable remuneration.

Pre-award risk assessment takes place on a couple of levels. Initially, at the time of determining the variable remuneration pool. This year, after consultation with the ECB and in line with the EBA Guidelines, the Management Board and the Supervisory Board approved a new Variable Remuneration Accrual Model (VRAM).

The VRAM takes a holistic view of the overall performance of ING across three key dimensions, (i) financial, (ii) non-financial and (iii) risk. Within each of these three dimensions specific criteria are used to measure performance (e.g. customer, people, return on equity, cost/income, non-financial risk score and operational excellence).

The HR function, together with the Risk and Finance functions, prepares the proposal for the variable remuneration pool in line with the principles of the VRAM. The Management Board then proposes the amount of the overall variable remuneration pool to the Supervisory Board, taking into account the advice of the Risk and the Remuneration Committees.

The variable remuneration pool (which includes both individual and collective variable remuneration), encompasses all staff eligible for variable remuneration worldwide, including Identified Staff.

ING uses a four-step approach to determine whether to award any variable remuneration in a given performance year and the maximum amount of the pool:

1. The ING CET1 ratio must be at or above the threshold established by applicable regulations;

2. ING’s return on equity (ROE) is equal to or higher than a percentage to be annually determined at the beginning of the performance year by the Management Board and the Supervisory Board;

3. If both CET1 and ROE qualifiers are met, a maximum variable remuneration pool for ING will be unlocked, as accrued in line with the VRAM; and

4. If only the CET1 qualifier is met, in principle, no bank wide variable remuneration pool will be put in place. A variable remuneration pool for staff in control functions and support functions and for those employees subject to a collective variable remuneration plan will then be accrued in an amount defined by the Management Board and approved by the Supervisory Board.

In determining the overall size of the variable remuneration pool, ex-ante measures are applied to reduce for current year and prior year increases in the risk profile, as well as for any known future potential risk profile changes, which are reflected in the use of the ROE. An ex-ante risk adjustment can be made by the Management Board with the approval of the Supervisory Board, taking into account the input of the Risk and Finance functions and the advice of the Risk and Remuneration Committees. The risk adjustment takes into account the liquidity required and the cost of capital in order to ensure that the total variable remuneration pool does not limit ING's ability to maintain an adequate capital base.

The second risk-adjustment measure lies in the performance assessment. ING applies an extensive assessment of the performance of staff members before variable remuneration is proposed and awarded. Every manager carefully assesses the performance delivered by his or her individual team members on the basis of pre-agreed performance priorities. In addition, the manager has the discretionary power to adjust a variable remuneration proposal downwards in case of perceived inappropriate risk taking. In this way, variable remuneration is aligned with additional risks that have been identified throughout the performance year.

In addition, up to three risk requirements apply to Identified Staff that are considered Material Risk Takers. These risk requirements set the minimum standards to be met during the performance year. Deviation from these standards may lead to downward adjustment of variable remuneration, a so-called risk modifier. This is a process run independently by the Risk function for which the CRO is ultimately responsible. The Supervisory Board and Risk Committee are responsible for members of the Management Board.

The post-award risk assessment process analyses whether the outcomes of the initial pre-award risk assessment process were correct. This can result in a downward adjustment of variable remuneration by applying a holdback (i.e., forfeiture of up to 100% of the awarded, but unvested, variable remuneration) and/or claw back (surrender of up to 100% of the paid or vested variable remuneration). In 2018 we imposed various holdbacks related to the settlement agreement with the Dutch authorities.

To ensure the autonomy of staff in control functions (positions within Legal, Risk, Finance, Compliance, Audit and HR), the functional line is in the lead for the performance assessment and individual financial performance priorities are not allowed.

The total amount of variable remuneration awarded to all employees (worldwide) eligible for variable remuneration over 2018 was EUR 303 million, compared to total employee costs of 5,420 million. Variable remuneration includes both individual and collective variable remuneration such as profit sharing arrangements agreed with relevant trade unions.

In 2018, there were 7 employees, working in the Corporate Staff, Wholesale Banking and Retail Banking business lines, excluding members of the Management Board Banking, to whom total annual remuneration (including employer pension contributions and severance payments made) of EUR 1 million or more was awarded.

Impact of 2018 settlement agreement

The 2018 settlement agreement with the Dutch Public Prosecution Service was considered an important factor as part of this process.

• In total, the amount available for variable remuneration in 2018 has been reduced (EUR 303 million) compared to last year's amount (EUR 403 million). For senior management the year on year variable remuneration has been reduced on average by over 60%. The variable remuneration for other staff eligible for variable remuneration will also be affected, however, to a lesser extent as appropriate.

• As already announced, the Executive Board volunteered to forfeit any entitlement to variable remuneration immediately following the settlement announcement. The Management Board also volunteered to forfeit their variable remuneration.

• Prior to the settlement agreement, a post-award risk assessment has been performed by initiation of the Supervisory Board and with the help of an external legal counsel. As a result, various holdbacks have been applied throughout the organisation, including a (partial) holdback of the outstanding deferred variable remuneration of one Executive Board member[1]. For more information we refer to the 2018 Executive Board variable remuneration section.

Shareholders' mandate to exceed 100% variable remuneration cap

ING's global remuneration policy is compliant with international and local legislation and regulations. The Dutch Act on the Remuneration Policies Financial Undertakings (hereafter: WBFO) sets various requirements, especially with respect to variable remuneration. ING applies all these requirements.

Under the WBFO, financial institutions are permitted to set a variable remuneration cap higher than 100% of fixed remuneration for employees outside of the European Economic Area (EEA), provided that the higher cap is approved by shareholders and does not conflict with the institution's capital adequacy requirements.

In 2017, approval was given at the Annual General Meeting of Shareholders (AGM) to continue applying an increased maximum percentage of up to 200% for employees outside the EEA for a period of five performance years, from 2017 to 2021. ING uses this facility very rarely. In 2018 this was applied to nil employees worldwide.

Remuneration policy for the Executive Board

The Executive Board's remuneration policy is compliant with applicable laws and regulations and is in line with the remuneration principles that apply to all staff.

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[1] To be effectuated in 2019

The current remuneration policy for the Executive Board was adopted at the AGM on 27 April 2010. Amendments to this policy were adopted at subsequent AGMs:

- On 9 May 2011 in response to new regulatory requirements
- On 12 May 2014 with respect to pensions for the Executive Board
- On 11 May 2015 in order to lower the maximum variable remuneration in line with legal requirements and specify that variable remuneration for the Executive Board be paid fully in shares
- On 8 May 2017 by extending the deferral period of the variable remuneration from three to five years.

For the AGM on 23 April 2018 a proposal was tabled for an amendment to the Executive Board remuneration policy for the CEO position. This proposal was subsequently withdrawn prior to the meeting in response to reactions from various Dutch stakeholders. For more information please refer to the press release: https://www.ing.com/Newsroom/All-news/Press-releases/ING-Supervisory-Board-withdraws-remuneration-proposal.htm and https://www.ing.com/Investor-relations/Shareholders-meeting/Annual-General-Meeting.htm

Total direct compensation

Total direct compensation for the Executive Board is determined and reviewed periodically by the Supervisory Board taking into account a number of varying factors, in particular the international market environment.

In line with requirements laid down in the Dutch Banking Code, the Executive Board's total direct compensation is compared to Euro Stoxx 50 companies. This is because the Euro Stoxx 50 benchmark includes similar organisations in terms of size and international scope. Bearing in mind all stakeholder interests, the current Executive Board remuneration policy aims to award total direct compensation slightly below the median of the Euro Stoxx 50.

Variable remuneration

Variable remuneration for the members of the Executive Board is limited to a maximum of 20% of base salary at the time of award. Variable remuneration is based for at least 50% on non-financial performance criteria. The policy provides for an at-target variable remuneration of 16% of base salary if performance criteria are met. If performance criteria are exceeded, the variable component can be increased by the Supervisory Board from target to maximum, but may not exceed 20% of base salary. If performance is below target, the variable component will be decreased, potentially to zero.

The performance priorities for the Executive Board are annually pre-determined by the Supervisory Board to ensure alignment between ING's strategy and performance objectives. In the year following the performance year, 40% of variable remuneration is paid upfront. The remainder is subject to tiered vesting over a period of five years.

Variable remuneration is fully paid out in shares. To all share awards granted to Executive Board members in their capacity as board member, a minimum retention period of five years from the date of conditional grant of the shares and one year from the vesting date applies. However, they are allowed to sell part of their shares on the date of vesting to pay tax on the vested share award.

Fully awarding variable remuneration in shares, in combination with an extensive deferral and retention period, aligns remuneration with ING’s long-term value creation.

Pension

As of 1 January 2015, all members of the Executive Board participate in the Collective Defined Contribution (CDC) pension plan with respect to their salary up to EUR 105,075 per year for 2018. As is the case for all participants in the Dutch pension scheme who earn a salary above this amount per year, the Executive Board members are compensated for the lack of pension accrual by means of a savings allowance to be annually determined (see Benefits).

Benefits

Executive Board members are eligible for additional benefits (e.g. the cost associated with the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances). This may also include banking and insurance benefits from ING on the same terms that apply to other employees of ING in the Netherlands. In addition, tax and financial planning services are provided to ensure compliance with the relevant legislative requirements.

Tenure

All current members of the Executive Board have a commission contract for an indefinite period of time including an appointment or reappointment term of four years as approved at the AGM and a six months' notice period. In the case of an involuntary exit, Executive Board members are eligible for an exit arrangement. These arrangements are subject to specific requirements (e.g. limited to a maximum of one year of base salary, no reward for failure).

Periodic review of the remuneration policy and the remuneration paid

In accordance with the Executive Board's remuneration policy as adopted at the AGM and as described in this chapter, the Supervisory Board annually determines the actual remuneration for the Executive Board members based on the advice given by the Remuneration Committee of the Supervisory Board.

The Remuneration Committee's responsibilities include the preparation of decisions to be taken by the Supervisory Board regarding remuneration of individual members of the Executive Board. Remuneration proposals for the individual Executive Board members are drawn up in accordance with the applicable Executive Board remuneration policy and cover the following aspects: remuneration structure, the amount of the fixed and variable remuneration components, the performance criteria used, scenario analyses that are carried out and, if and when considered appropriate, the pay ratios within the company and its affiliated enterprise. The Remuneration Committee takes note of individual Executive Board members' views with regard to the amount and structure of their own remuneration, including the aspects as mentioned above.

Special employment conditions

Special employment conditions, such as commitments required to secure the recruitment of new executives, may be used in circumstances subject to approval by the Supervisory Board.

2018 Remuneration Executive Board

In this section, the remuneration details of the current and former Executive Board members relating to the period that they were members of the Executive Board have been included.

The Executive Board's remuneration for 2018 should be in accordance with the Executive Board's remuneration policy. The policy specifies that total direct compensation should be below the median of comparable positions in the Euro Stoxx 50 peer group. For 2018, the CRO and CFO total direct compensation[2] is in line with this ambition.

[2] Total direct compensation comprises fixed base salary and variable remuneration, excluding benefits such as pension arrangements, and allowances.

However, the total direct compensation for the CEO is not in line with this policy. Last year, the ING Group Supervisory Board recommended to amend the Executive Board remuneration policy. In light of the reactions of various Dutch stakeholders, the Supervisory Board reconsidered the proposal and decided not to put it up for a vote at the Annual General Meeting.

In line with the Dutch Corporate Governance Code, the internal ratio of the Executive Board members' remuneration and that of a representative reference group was determined.

For this ratio, ING deems most relevant the total direct compensation of the CEO compared to the average total direct compensation of more than 54,000 ING employees worldwide. On that basis, the internal ratio in 2018 was 1:29. For the sake of transparency we also calculated the ratio of the total direct compensation of the other Executive Board members compared to the average total direct compensation of all ING employees. On that basis the internal ratio in 2018 was 1:20. The lower ratios compared with last years‘ ratio, is a result of the fact that the Executive Board (including the CEO) volunteered to forfeit any entitlement to variable remuneration.

Following the settlement agreement and in consultation with the Supervisory Board, Koos Timmermans stepped down from his position as CFO and member of the Executive Board of ING Group on 7 February 2019 after more than 20 years of dedication to ING. Koos Timmermans joined ING in 1996 and was a member of the executive team since 2007. His efforts to align the bank’s balance sheet with new and upcoming regulation have strongly contributed to the robust financial foundation ING has today. In order to facilitate an orderly transition, and during the contractual notice period of six months, Koos Timmermans will continue to advise the company until 31 August 2019. In line with applicable regulations a severance payment was granted. While, as part of his contract he was entitled to a maximum severance payment of one year’s fixed annual pay, the Supervisory Board at its discretion has set the severance pay at a level of 50% of fixed annual pay (EUR 601,800).

2018 Executive Board base salary

In 2018 the Supervisory Board decided to increase the base salary of the CEO by 2.2% with effect from 1 January 2018, as communicated in our remuneration report 2017. AGM approval was not required since the increase of the base salary was in line with the remuneration policy for the Executive Board as approved at the AGM at an earlier stage. The base salary of the other Executive Board members remained the same in 2018.

2018 performance indicators Executive Board

As indicated in the remuneration policy, the performance of the Executive Board is assessed based on non-financial and financial indicators. For 2018, performance indicators applied included the following:

Performance Indicators[3]

Non-financial performance indicators

- Operational control in relation to compliance with regulations.

- The acceleration of the Think Forward strategy: improving customer experience and enabling commercial growth.
- Driving innovation to create a differentiating customer experience.
- Proceeding on digital transformation programmes to improve customer experience and realise further efficiency gains.
- Increasing ING's social and environmental impact through our sustainability activities.

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[3] The combined performance indicators of the Executive Board members.

Financial performance indicators

- Underlying net result
- Underlying return on IFRS equity
- Common equity core tier 1 ratio
- Underlying operating expenses
- Underlying cost/income ratio.

2018 Executive Board performance evaluation

The table below highlights key achievements, collectively accomplished by the Executive Board in 2018 in the areas mentioned, reflecting both the overall ambitions of ING and the specific performance priorities agreed with the Supervisory Board at the beginning of 2018.

Operational control	• 2018 was dominated by the €775 million settlement agreement with the Dutch Public Prosecution Service related to the previously disclosed criminal investigations that found serious shortcomings in the execution of customer due diligence requirements to prevent financial economic crime at ING Netherlands in the period investigated (2010-2016). • The implementation and execution of policies related to Anti Money Laundering (AML) policies and procedures is an ongoing activity. Measures are being implemented as part of the bank-wide, global Know Your Customer (KYC) Enhancement Programme, a multi-year improvement programme with integral steering. This specific programme was officially launched early in 2017 and is expected to run until end-2020. ING is committed to periodically providing the Dutch central bank (DNB) with regular updates on the progress made.
Strategy implementation	• **Accelerated the Think Forward Strategy** by growing customer bases in Wholesale and Retail Banking and major investments made to create a differentiating customer experience. • Important steps taken in the four major **digital transformation programmes**: § **Unite be+nl**: almost 600,000 Record Bank customers were successfully migrated to ING and introduced to the clear & easy ING customer experience. In Belgium all former Record Bank mortgages and consumer loans were migrated to an external provider which is an important step towards the decommissioning of systems. § **Model Bank**: in the Czech Republic, over 400,000 customers were migrated to a new Retail platform that will later be used in most of our Challenger countries. This

	new environment will ultimately offer 7 million customers an uniform experience across all channels at better cost efficiency. The new platform is truly modular and makes use of all of ING's global IT building blocks (e.g. Touch Point Architecture, ING Private Cloud). § **Welcome:** in Germany, digitisation and operational excellence initiatives continued with the introduction of new features for mortgages disbursements and the automation of back-office dispute handling. Also the testing of new Money Management features was started such as "categorisation" of transactions (e.g. shopping) in the online current account statement. § **WB TOM**: customers are now offered the same standardised contract for account opening for the vast majority of all account opening requests globally. Further sharpened control and faster response through real-time transaction monitoring. • **Ranked number one in Net Promotor Scores** relative to competitors in 7 of 13 retail markets.
Innovation	• New initiatives developed and aligned with partners to improve the customer experience, including: § Acquiring a 75% stake in **Payvision**, a fast-growing, leading international omnichannel payments service provider. § A partnership with **AXA** to create a fully digital insurance platform that will offer clear and easy, customisable protection to retail customers in Australia, Austria, France, Germany, Italy and Czech Republic. § Expansion of **Yolt**, the money management platform in the UK, to France and Italy as part of the ambition to build a pan-European money platform § Investment in the international payments platform **TranferMate**, with the ambition to integrate TransferMate payments into ING services for SME and corporate customers to provide them with faster, cheaper and easier payments solutions. • Major milestones achieved in the **blockchain** area including: § In partnership with fourteen larger industry players and banks set up the venture **Komgo** in order to digitalise the trade and commodities finance sector through a blockchain based open platform. § Together with HSBC conducted the first live, commercial trade finance transaction on blockchain for agrifood trading giant Cargill using the **R3 Corda platform**.
Sustainability	• Introduction of the **Terra Approach,** an innovative and accurate way to measure the climate impact of ING's EUR 600 billion loan book and steer this towards meeting the Paris Agreement's two-degree goal. The Terra Approach is

	open source and is shared with other banks and stakeholders interested in adopting this approach. • ING was named to **CDP's Climate A-List** of 126 companies leading on climate change action. CDP is a leading global non-profit that uses measurement and disclosure to improve the way companies and governments manage environmental risks.
Financial performance	• **Increased** number of new retail customers by 1 million to 38.4 million; number of primary relationships up by 1.1 million to 12.5 million. • **Achieved** net profit (IFRS-EU) of EUR 4,703 million, down 4.1% from 2017. Underlying net profit is EUR 5,389 million, up 8.7% from 2017 (EUR 4,957 million), notwithstanding persistent pressures from the low interest rate environment. • **Grew** net core lending by EUR 36.6 billion (+6.4%); increased customer deposits by EUR 19.3 billion (+3.6%). • **Realised** underlying return on equity (IFRS-EU) for ING Group of 11.2%, up from 10.2% in 2017. • **Improved** underlying cost/income ratio to 54.8% from 55.5% in 2017.

2018 Executive Board variable remuneration

In the light of the settlement agreement with the Dutch Public Prosecution Service

the members of the Executive Board of ING Group, in consultation with the Supervisory Board, find it appropriate to forego their variable remuneration related to performance year 2018. For more information please refer to the press release:
https://www.ing.com/Newsroom/All-news/Press-releases/ING-reaches-settlement-agreement-with-Dutch-authorities-on-regula

The tables below (i.e. total direct compensation, pension costs and other emoluments) shows the remuneration awarded to the individual Executive Board members with respect to the performance years 2018, 2017 and 2016. Please note that the 2018 figures reflect an entire year for all three members of the Executive Board whereas the 2017 figures reflect a partial year as an Executive Board member for Koos Timmermans and Steven van Rijswijk.

Total direct compensation of the individual members of the Executive Board

Amounts in euros (rounded figures)	2018 Amount	2018 Number of shares	2017 Amount	2017 Number of shares	2016 Amount	2016 Number of shares
Ralph Hamers (CEO)						
Base salary	1,750,000		1,713,000		1,663,000	
Variable remuneration (fully in shares) [1]			293,000	18,547	316,000	23,092
Koos Timmermans (CFO)						
Base salary	1,203,600		781,000			
Variable remuneration (fully in shares) [1]			104,000	6,612		
Steven van Rijswijk (CRO)						
Base salary	1,203,600		781,000			
Variable remuneration (fully in shares) [1]			104,000	6,584		
Total aggregated base salary	4,157,200		3,275,000		1,663,000	
Total aggregated variable remuneration			501,000		316,000	
Total aggregated number of shares				31,743		23,092

1 The number of shares is based on the average ING share price on the day on which the year-end results were published.

Prior to ING reaching a settlement with the Dutch Public Prosecution Service, the Supervisory Board initiated an internal investigation (post-award risk assessment) with the help of external legal counsel. Even though there was no indication of personal wrongdoing or individual culpability, the Supervisory Board, acting in accordance with ING's Remuneration Regulations Framework, deemed that there is sufficient grounds to apply a (partial) holdback on the outstanding deferred variable remuneration of one Executive Board member, given his position during the investigated period as member of the Management Board and being end-responsible for ING Netherlands for several years[4] .

Pension costs

Members of the Executive Board participate in the Collective Defined Contribution (CDC) pension plan as part of the Executive Board remuneration policy. In 2018 pension accrual only applies to salary up to an amount of EUR 105,075. The table below shows the pension costs of the individual members of the Executive Board in 2018, 2017 and 2016.

Pension costs of the individual members of the Executive Board

Amounts in euros (rounded figures)	**2018**	**2017**	**2016**
Ralph Hamers	26,000	30,000	26,000
Koos Timmermans	26,000	19,000	–
Steven van Rijswijk	26,000	19,000	–

Benefits

The individual members of the Executive Board receive other emoluments, including savings allowances for the loss of pension benefits for salary above EUR 105,075 for 2018, employer contributions to savings schemes, reimbursement of costs related to home/work commuting, costs associated with the company car and costs associated with housing and schooling (the latter two only for expats).

The other emoluments amounted in 2018, 2017 and 2016 to the following costs.

Other emoluments

amounts in euros (rounded figure)	**2018**	**2017**	**2016**
Ralph Hamers	561,000	624,000	553,000
Koos Timmermans	408,000	290,000	
Steven van Rijswijk	369,000	274,000	

Long-term incentives awarded in previous years

Long-term incentives to the Executive Board members in previous years are disclosed in the table ING shares held by members of the Executive Board.

Employee stock options

The table below contains information on the outstanding employee stock options and the movements during the financial year of employee stock options held by the members of the Executive Board as of 31 December 2018, which were all awarded to these board members in roles within ING prior to their appointment to the Executive Board.

[4] To be effectuated in 2019.

Options held by the members of the Executive Board

Number of options	Outstanding as at 31 December 2017	Exercised in 2018	Waived or expired in 2018	Outstanding as at 31 December 2018	Grant price in euros	Vested date	Expiry date
Ralph Hamers	16,957		16,957		€ 16.66	13 March 2011	13 March 2018
	19,985			19,985	€ 2.90	19 March 2012	19 March 2019
	22,124			22,124	€ 7.35	17 March 2013	17 March 2020
Koos Timmermans	56,405		56,405		€ 19.53	15 May 2011	15 May 2018
	20,675		20,675		€ 14.36	17 Sep 2011	17 Sep 2018
Steven van Rijswijk	2,770		2,770		€ 16.66	13 March 2011	12 March 2018
	9,044		9,044		€ 16.66	13 March 2011	12 March 2018
	1,688			1,688	€ 2.90	19 March 2012	18 March 2018
	11,658			11,658	€ 2.90	19 March 2012	18 March 2018
	2,318			2,318	€ 7.35	17 March 2013	16 March 2020
	10,694			10,694	€ 7.35	17 March 2013	17 March 2020

Shares

Deferred shares are shares conditionally granted subject to a tiered vesting over a period of five years (for awards in 2018 and before), with the ultimate value of each deferred share based on ING's share price on the vesting date.

For the Executive Board members the following shares vested during 2018:

Shares vested for the Executive Board during 2018

	Shares	Granting date	Vesting date	Nr. of shares granted[3]	Nr. of shares vested prior years	Nr. of shares vested 2018	Nr. of unvested shares[4]	Vesting price
Ralph Hamers[1]	LSPP[2]	27 March 2014	27 March 2018	6,215	5,385	830		€ 13.68
	LSPP	11 May 2016	11 May 2018	28,404	17,042	5,680	5,682	€ 13.26
	LSPP	11 May 2017	11 May 2018	23,092	9,237	4,618	9,237	€ 13.26
	LSPP	10 May 2018	10 May 2018	18,547		7,419	11,128	€ 13.54
Koos Timmermans[1]	LSPP	13 May 2015	13 May 2018	30,012	24,009	6,003		€ 13.40
	LSPP	11 May 2016	11 May 2018	18,278	10,966	3,655	3,657	€ 13.26
	LSPP	11 May 2017	11 May 2018	15,838	6,335	3,167	6,336	€ 13.26
	LSPP	10 May 2018	10 May 2018	10,139		4,056	6,083	€ 13.54
Steven van Rijswijk[1]	LSPP	27 March 2015	27 March 2018	15,088	12,572	2,516		€ 13.68
	LSPP	25 March 2016	27 March 2018	19,362	12,908	3,227	3,227	€ 13.68
	LSPP	27 March 2017	27 March 2018	13,890	6,945	2,315	4,630	€ 13.68
	LSPP	27 March 2018	27 March 2018	3,460		1,730	1,730	€ 13.68
	LSPP	10 May 2018	10 May 2018	6,584		2,634	3,950	€ 13.54

1 Shares granted to Ralph Hamers in March 2014, to Koos Timmermans in May 2015, May 2016 and May 2017 and Steven van Rijswijk in March 2015, March 2016, March 2017 and March 2018 were awarded for their performance in positions prior to their appointments to the Executive Board.

2 Deferred share units of Ralph Hamers are cash settled instruments of which the ultimate value will be based on ING Group's share price at the vesting date.

3 Number of shares granted includes both deferred and upfront part awarded at the granting date.

4 The (partial) holdback of the outstanding deferred variable remuneration of one Executive Board member will be effectuated in 2019.

As recognised in the profit or loss statement of 2018, the expenses per Executive Board Member (active on 31 December 2017), whilst serving on the Executive Board, amount to EUR 2.6 million for the CEO, EUR 2.5 million for the CFO and EUR 1.8 million for the CRO.

Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2018, 2017 and 2016.

Loans and advances to the individual members of the Executive Board

Amounts in thousands of euros		2018	2017	2016
	Amount outstanding			